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Free Minds and Free Markets/January 1982/$2.00

Interview with Marva Collins

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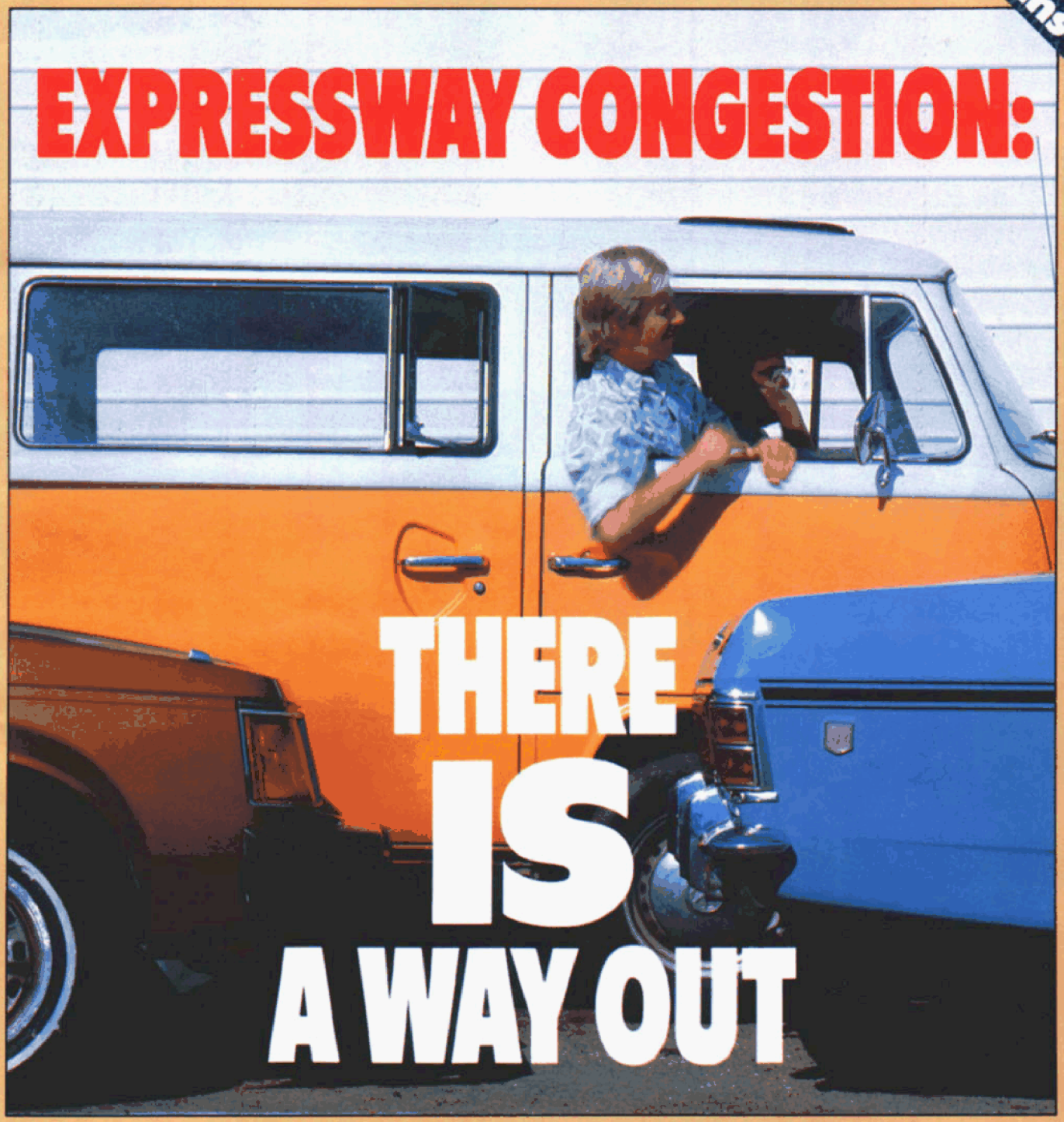

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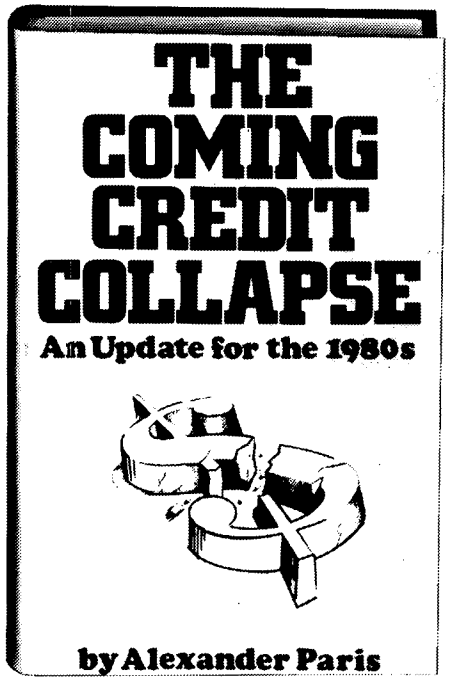

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ABOUT THE AUTHOR

Alexander Paris is an economist and Senior Vice-President of Kanne, Paris & Hoban, Inc. a Chicago-based investment consulting firm where he is an advisor to major financial institutions. He is also president of Barrington Associates, a research group specializing in natural resource investment, credit market strategies and investment partnership management. He has over 20 years experience in the investment industry and is widely known for his definitive predictions on interest rates and business cycles.

He is author of *A COMPLETE GUIDE TO TO TRADING PROFITS*, the best selling classic *THE COMING CREDIT COLLAPSE* and *THE COMING CREDIT COLLAPSE AN UPDATE FOR THE 1980s.* He is *editor and publisher of the FREE MARKET PERSPECTIVES* and *INTERNATIONAL ASSET INVESTOR* newsletters.

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JANUARY 1982/VOL. 13, NO. 9

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Free Minds and Free Markets

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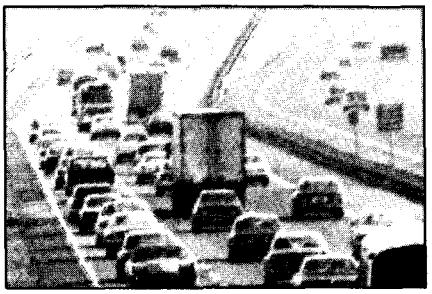

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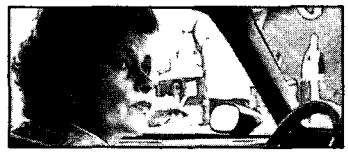

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editor's notes

This month marks the debut of our new assistant editor, Eric Martí. Eric will be assisting managing editor Marty Zupan in putting out each month's issue, coauthoring the Trends column, and serving as managing editor of our newsletter, *Frontlines.* Eric comes to us from a Chicago-based trade publication, *Dental Products Report,* where he was associate editor. Prior to that he worked in the subscription department of Time, Inc. A magna cum laude graduate of Middlebury College (in philosophy and French), he spent a year in a philosophy Ph.D. program at Yale but left upon deciding to pursue a career in journalism.

Eric's predecessor, Christine Dorffi, has left us to devote herself full-time to free-lance writing. We hope to present her articles in REASON's pages from time to time.

We are pleased to present the results of our Humor Contest announced in the September issue. Mark Edward Crane, of Cliffside Park, New Jersey, has been awarded the Grand Prize: "the chance to work for peanuts...as a Brickbats writer for REASON." Second prize goes to John Fund, a resident of Fair Oaks, California; this *is* the honorable mention promised as a prize. Since Mr. Crane took us up on the chance offered as first prize, he will be appearing in REASON each month as the writer of Brickbats. See page 12 for his first go at it. Not expecting to survive on our peanuts, Mr. Crane will be continuing his full-time job as a feature and business reporter for a national wire service.

The idea of privatizing air traffic—providing it in the private sector, paid for by the users rather than the taxpayers—has picked up new support. First proposed in these pages in my January 1979 article "Is This Any Way to Run an Airway?" and elaborated on in Chapter 7 of *Instead of Regulation,* privatization has now been endorsed editorially by both the *New York Times* (Oct. 23) and the *Register* (Nov. 4). Earlier this fall, two labor leaders—AFL-CIO president Lane Kirkland and Machinists' union president William Winpisinger—also endorsed the idea. And both the White House staff and the Transportation Department have expressed some interest in it. We'll keep you posted.

Our October cover story on competing electric utilities has begun attracting attention. Author Jan Bellamy and I did an hour-long talk show on the subject on radio WKIS, Orlando, Florida, in October. Host Bud Brewer got so enthusiastic about the idea that he went on to interview economist Walter Primeaux and Lubbock Power & Light representative Carroll McDonald (who were quoted in the article) on subsequent programs. National Economic Research Associates, a New York-based consulting organization, ordered 100 copies of the issue. And even the *Bulletin,* Australia's leading news magazine, featured a column on the article.

We're continuing to receive feedback on our August cover story on the St. Louis Solution to urban decay—street privatization. In Berkeley, California, several citizens, citing the REASON article, suggested privatization as a possible solution to drug-related street crimes in the southwestern portion of the city. A hostile city council referred the matter to the city attorney's office, which reviewed it but recommended against it as not likely to be effective. REASON has received inquiries on the subject from citizens' groups in Los Angeles, again in response to crime problems. And one Florida community, Golden Beach, has gone ahead and closed off (but not privatized) all but one of the streets linking it with highway A1A and adjacent Dade County's crime problems. Meanwhile, the *Los Angeles Times* picked up on our story and did a front-page piece on St. Louis's private streets on October 13.

Our July cover story on privatizing Wilderness lands continues to attract notice. The *Register* in Orange County, California, recently devoted an editorial to the idea, quoting authors John Baden and Richard Stroup. And Susan Lee had a piece titled "Taking America's Wilderness to Market" on the *Wall Street Journal* editorial page on September 9. Stroup, meanwhile, has been busy compiling data on the extent of existing landholdings by conservation organizations. Altogether, the 15 responding organizations have acquired some 5.4 million acres over the years. Some of this land has been turned over to government agencies, but a substantial portion remains in private hands. That's especially true of the large landholdings of such groups as the Nature Conservancy, Ducks Unlimited, and the National Audubon Society.

—R. P.

It sounds incredible, but Bill "Tycoon" Greene, author of THINK LIKE A TYCOON, tells how he and thousands of other tax foes pay no taxes at all—legally. WIN YOUR PERSONAL TAX REVOLT reveals the closely guarded secrets used by politicians, religious leaders, international business magnates, and property owners.

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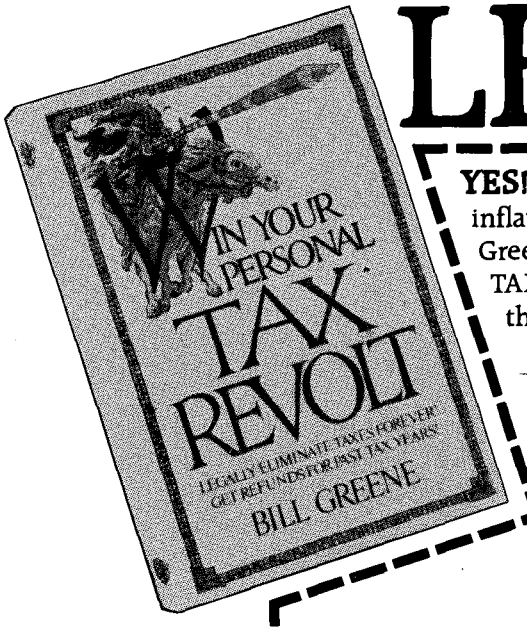

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A Draft Is No Solution

editorial

IN NOVEMBER, Selective Service Director Thomas Turnage announced that nearly 25 percent of the nation's 18-year-olds had failed to register for the draft in 1981. That announcement came as the Military Manpower Task Force was completing its interim report to the president, scheduled for delivery early in December. President Reagan will then have to decide what to do about draft registration and the draft.

No observer of the debate can ignore the fact that our armed forces are plagued by serious problems—of recruitment, retention, and mobilization. While the raw *numbers* of recruits have come close to meeting military requirements, serious questions have been raised about the composition of the resulting armed forces. Many of the objections are ideological—that disproportionate numbers of minorities are enlisting, for example—and need not concern us. Of far more importance are questions of military effectiveness.

Although it is *not* the case that mercenary armies are poor fighters, as some have alleged, thoughtful observers nevertheless point out that a military force works best when it contains a mix of class and educational levels. The Gates Commission (which made the case for the All Volunteer Force) tended to neglect such factors. But manpower experts such as Charles Moskos and Jerald Bachman make a strong case that the absence of middle-class, college-educated (or college-bound) "citizen soldiers" from today's AVF seriously reduces its effectiveness—even though under the draft such persons only served two-year hitches and departed.

At least equally serious is the military's failure to retain its skilled technical personnel—electronics technicians, petty officers, etc. In an increasingly technological military, such personnel are absolutely critical. Yet in some disciplines the retention rate is as low as 30 to 40 percent.

The third problem is that of mobilization. In time of war the standing army must be backed up by large numbers of reservists. But, as is well known, the reserves are presently short 350,000 members—a 20 percent deficit. Sen. Sam Nunn, for one, has advocated a draft specifically for the reserves.

All of these problems are laid at the doorstep of the AVF. Yet the fact is that the shift from coercion to voluntarism, itself, is not responsible for any of them. What has occurred over the past decade amounts to the sabotage of the AVF by a combination of three developments.

To begin with, military pay has been cut sharply. That's right, *cut.* Since the last draft call in December 1972, entry-level basic military pay, corrected for inflation, has decreased by *more than 20 percent.* A similar decline has occurred in total military compensation at all pay grades. So it's no wonder that the AVF has had increasing difficulty recruiting any but low-skill, low-education-level people and retaining skilled personnel.

A second factor that has helped to sabotage the AVF has been the gutting of educational benefits. After creating the AVF in 1972, Congress proceeded to abolish the GI Bill, substituting a miniscule ($100 million) Veterans Educational Assistance Program. At the same time, Congress vastly expanded federal aid to civilians—Guaranteed Student Loans, Basic Educational Opportunity Grants, National Direct Student Loans, etc., totaling *$6 billion* in 1981. As Charles Moskos puts it, "Congress has created a system of educational benefits which offers more to those who do not serve their country than those who do."

Finally, it is Congress and the Pentagon that must bear the responsibility for the atrophy of the Individual Ready Reserve. As noted in Michael Hinz's article in these pages last month, the military does not even keep up-to-date records of IRR members' addresses, nor does it spend anything on periodic retraining of these reservists. With that kind of neglect, it's no wonder people are concerned about mobilization.

The answer to the AVF's problems does not lie in a return to conscription. It lies, rather, in repairing the decade of sabotage by restructuring incentives across the board. The first step would be to make federal higher-education assistance conditional on some form of military obligation. This could include payments for college prior to service (to help attract citizen-soldier college graduates), a revived GI Bill for veterans of service, sabbatical leave for skilled technicians to obtain advanced skills, and IRR enlistment grants. (Incidentally, far less than the present $6 billion would be needed, permitting some net reductions in federal spending.)

Second, the entire military compensation system needs restructuring, on a two-track basis: one track stressing long-term incentives for career military personnel and another specifically focused on the two-year citizen-soldier enlistee. Bachman, Blair, and Segal in *The All-Volunteer Force,* Charles Moskos in various articles (for example, "Saving the All-Volunteer Force," *The Public Interest,* Fall 1980), and Roger Nils Folsom ("Can Conscription Work?" Cato Institute, May 15, 1981) have all made proposals along these lines. Such a system would restore a healthy mix of attitudes and experiences and increase the esprit de corps of the military.

Finally, as Michael Hinz recommends, *voluntary registration* for the reserves should be set up, based on suitable incentives, to restore the IRR to an effective mobilization resource. Military studies estimate that forced registration would save only 7 to 15 days of the *seven months* to prepare a draftee for war. How much better to develop first-rate reserves using recruitment and training incentives.

The geopolitical rationale of those urging a new draft is that it would send a signal to friend and foe alike that the United States is "serious" about a strong defense. But what kind of message are we sending if we must resort to coercion to get people to defend us? How much stronger a signal it would be for the world to see a strong, robust, proud military force peopled entirely by those who believe in what they're doing. That a free people are *willing* to defend themselves conveys more of what this country is all about than a draft ever could.

Robert Poole, Jr.

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Who says so? Former Treasury Secretary William Simon, for one. "This book shows that deregulation across the board—phasing out not just old-line economic regulatory agencies but the new-breed social regulatory agencies as well—could usher in a new era of American prosperity." Adds Nobel laureate Milton Friedman, "This book is a sure-fire antidote to regulatory fever—authoritative, lucid, crammed with both evidence and attractive alternatives."

And the response in Washington has been equally positive. In a joint letter to Senate colleagues, Sens. Paul Laxalt, Roger Jepson, and Steve Symms said of the book, "It provides thoughtful insight on some of the major problems facing us today and offers a refreshing perspective to those weary of government-conceived, government-funded, government-perpetuating solutions." Rep. Thomas Kindness, whose committee is dealing with deregulation issues, termed *Instead of Regulation* "a thought-provoking work of central value to those concerned with the future role of government in our nation." Likewise, Martin Anderson, Assistant to the President for Policy Development, calls it "a thought-provoking book that is bound to have an impact on future public policy."

See for yourself how incentives can be restructured and market forces unleashed to meet the goals of regulation without costly, inflexible bureaucracies. Order your copy of *Instead of Regulation* today!

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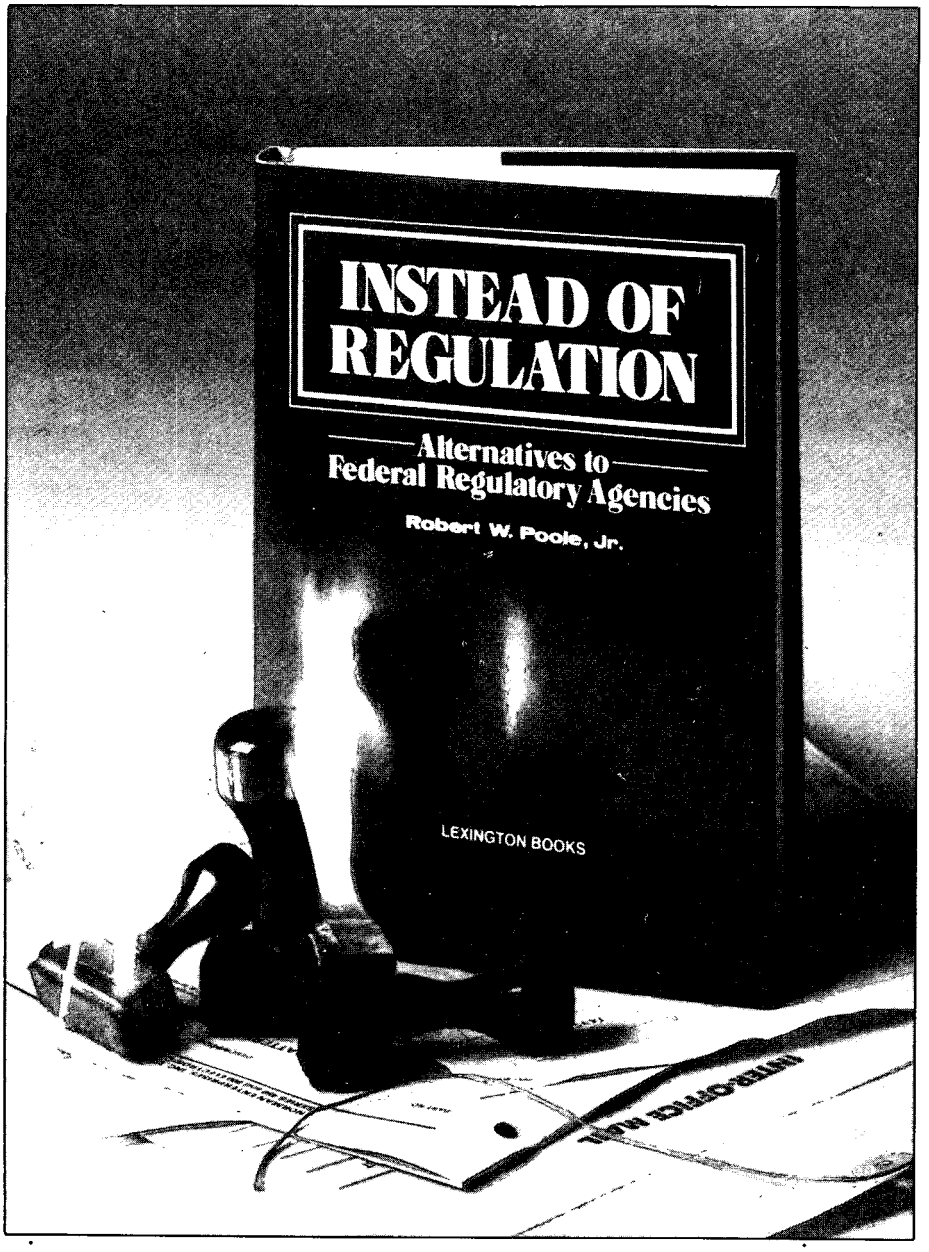
—Jeffrey St. John, **Washington Report,** *U.S. Chamber of Commerce*



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letters

Utilities Competition: Tell Us More

One of REASON's important attributes is that, more than any other publication I read, it resists the impulse to exaggerate. As a result, one tends to accept what it says as being unquestionably true. The value to you, and the reader, of this attribute is beyond measure. It should be rigorously guarded.

In Jan Bellamy's very interesting article on competition between utilities (Oct.) she borrows from Gregg Jarrell an unwarranted conclusion that, had it been left out, would have left her article stronger. In the first column of page 26 appears this sentence: "After five years of state regulation, he discovered, the utilities' prices and profits had both increased, while electricity output fell." That Jarrell could have found dates bounding a five-year period during which output for selected utilities fell, I do not doubt; I do doubt that regulation had more than a trivial influence on that outcome. Maybe his period began when the United States was busy supplying the World War I exhibition of waste and terminated in the subsequent soft economy.

As a matter of policy, I suggest that when you make use of the results of a statistical study you specify not only the length of the period over which change is measured but the dates bounding it. Your mission is education; you can leave the exhortation to others.

Edgar R. Jones
Englewood, FL

The Moral Majority And All the Schools

Murray Rothbard's "The Moral Majority and the Public Schools" (Viewpoint, Sept.) misses the main point of the attack on secular humanism by the Moral Majority. Rothbard is concerned with whether there should be public schools, and he argues the libertarian position that the State should be out of education entirely.

But what the Moral Majority is objecting to is *all* secular education, whether in the public or private schools. They are objecting to the teaching of science, moral education, modern literature, etc. The bête noir of the Moral Majority is a straw man. For there is no conspiracy by a group of secular humanists to take over and dominate the schools.

Libertarians should be as concerned as secular humanists with the assault on freedom by those who claim to believe in it but would impose an authoritative system of values on the entire society. Actually, the target of the Moral Majority is libertarianism as well as secular humanism. They are opposed to an ethics based on reason and independent judgment. They are the enemies of freedom. Secular humanists share with libertarians the values of individual freedom and autonomy of choice.

Paul Kurtz, Editor
Free Inquiry
Buffalo, NY

Praise . . .

Your September issue must be one of the best yet; many thanks for some excellent articles.

Top honors belong, in my view, to Roger Bissell's piece on abortion. It is easily the most constructive and calmly reasoned approach to that question that I've read.

A. J. Davies
Ridgefield, CT

I commend you on publishing the extraordinary article "A Calm Look at Abortion Arguments," by Roger Bissell (Sept.). It is one of the best articles on any subject that I have ever seen, and by far the best contribution to that particular debate.

Dave Fafarman
El Sobrante, CA

And Puzzles

Roger Bissell contends that a pre-28-week human fetus is only a *potential* human being, not an *actual* human being, because it does not have the *actual* faculty for rational thought. If one accepts this assertion, then one must also accept that a person who is unconscious, asleep, or intoxicated would not be an actual human being by the fact that he or she does not have the actual faculty, but the latent ability or potential for rational thought. It would be more appropriate in each of these cases to say that these are human beings with potential, instead of potential human beings. . . .

Gregory B. Verive
Glendale Heights, IL

Roger Bissell's article is well written, nicely packaged, and objective. . . until he interjects his own views on the matter. His position that fetal life is not human life before the 28th week when the brain begins to function on a perceptual level is almost as capricious as any proabortion argument I've heard, although it does sound nicer. If human life develops only after the 28th week, then what do we have during the first 27 weeks? It is almost as if we are waiting for the 28th week to find out what it will turn out to be, as if it could possibly be anything other than human. . . .

Barry A. Kunz
West Covina, CA

Roger Bissell's examination of the abortion question (Sept.) was excellent but stopped short of the crucial question: If brain activity is the criterion for determining what is human, and therefore what is murder, then how do we deal with the killing of animals? An adult chimpanzee is considerably more intelligent than a newborn infant. A cow, sheep, dog, or cat is considerably more intelligent than a 28-week-old fetus. Is the killing of these animals murder? I am very, very reluctantly being dragged to the conclusion that it is. Can anyone explain why it is not?

Rick Maybury
Roseville, CA

Roger Bissell's article on abortion presents a facile case for establishing "humanity" of the fetus at the 28th week of term. Unfortunately, his reasoning does not proceed logically and he neglects to consider the context in which the issue of humanity and civil rights arises.

Initially, Bissell adopts Ayn Rand's definition of "human" as that which demonstrates a conceptual-rational mentality—in other words, a level of cognition higher than the perceptual mentality typical of mere animals. He then makes the observation that the Randian definition requires or subsumes the power of perception as part of cognition. From this correct observation, Bissell then leaps to the completely illogical conclusion that the power of perception alone is *sufficient* to define "humanity." The power of perception is indeed necessary, but it is not sufficient—*as Rand's definition intends to demonstrate*. . . .

Bissell then takes as his premise the

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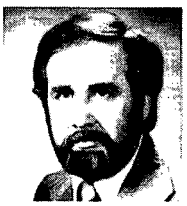

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R181

notion that EEG signals (alpha, delta, and theta rhythm patterns) are bona fide indicators of perceptual activity. The interpretation of electrical brain signals has not advanced to the point where such a premise can be accepted, and Bissell is overstepping available evidence. Even if such an association were to be accepted, the evidence so far indicates that EEG traces and perception are related only in this way: during concentration of a subject on a stimulus, certain rhythms are suppressed and others are enhanced. The implication of this with regard to Bissell's information about prenatal EEG signals is that the detection of such perceptive responses would be possible only *after* the 32nd week of term, when the brain rhythms are continuously available for interpretation. Therefore, the very most that could be logically inferred from Bissell's arguments is that a perceptual mentality *might be* present in the fetus at the 32nd week of term. . . .

Rand's definition of humanity has been incorrectly cited far too often in this discussion. Rather than rationality or conceptual cognition being the definitive attribute (as people have tried to argue), the true determinant of human identity is the manifestation of *volitional consciousness*: the ability to communicate and voluntarily interact in a social context. The only way that such a characteristic can be identified as being present is by observation of its behavior. Jose Delgado, the world's foremost researcher of electrical stimulation of the brain, put it succinctly: "Without behavior, the mind cannot be recognized."

This is the point at which the anti-abortion argument breaks down, for the fetus does not and cannot demonstrate any behavior indicative of volitional consciousness. Because civil rights are social inventions that are designed to protect the lives and livelihoods of beings that are characterized by volitional behavior, it makes no sense at all to extend civil rights to things that *do not* demonstrate such behavior. . . .

Mike Dunn
Federal Way, WA

While Roger Bissell's article clarified some points, he still misses the main point. Bissell states that the sole right of a woman to control what happens to her own body is not a fundamental issue in the abortion argument. I maintain that it is.

The issue does not rest solely on when the fetus develops the ability to "begin to

(Continued on p. 56.)

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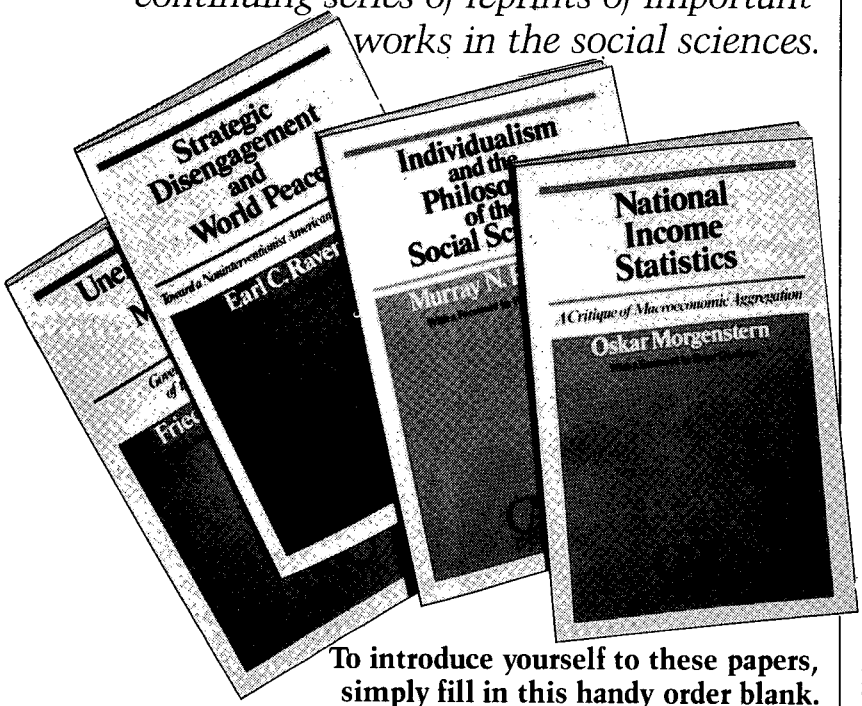
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brickbats

☐ **Pity the poor hogsucker,** a fish so ugly and so "underutilized" that the federal government wants to give it a new name and then cram it, along with a few tons of ratfish and other delectable-sounding fruits de la mer, down the throats of the American public. And pity the taxpayers, who have had to cough up a half-million dollars (so far) to help sell seafood with image problems.

The National Marine Fisheries Service, you see, discovered that people aren't exactly breaking down the doors of their fish markets begging and screaming for more stumpknockers and crappies. It took an *eight-year* study to find out that Americans have a prejudice against any fish that looks like it wants to swallow Cleveland and sounds like something you'd call the exterminator for.

So if the people won't eat their hogsuckers, we'll just have to change the names of the little ugly beasts. Butterfish sounds so much more appetizing than dogfish, according to the "bureaucratis nincompoopis" at the service. True to the bureaucratic method, the grunts, gags, viperfish, et al. are being grouped according to "edibility profiles" and are rated on a scale to describe flavor, odor, color, etc. Then all species with similar profiles will be lumped into groups and renamed.

Fisheries service spokesman James Brooker says that after eight years of work, no new names have been chosen, and generic or individual naming is still a year off. A stumpknocker is still a stumpknocker, but only for a moment. Pass the monkfish, please.

☐ **From that haven** of tolerance and religious freedom, we learn that Ayatollah Ruhollah Khomeini has finally identified the true culprit of his nation's woes. It isn't Yankee imperialism, counterrevolutionaries still dedicated to the monarchy, or even evil Iraqi influence. The true heretics are grade-school children who bring felt-tipped pens to class. The government of Iran, which has made firing squads the new growth industry and is exhorting little children to inform on fellow pupils who harbor thoughts harmful to Khomeini's theocracy, announced that students possessing the felt-tipped devices of terror would be expelled. The pens are often used to write slogans on walls. Like, "Big Mullah Is Watching You."

☐ **Capitalism continues to flourish** in China and the Soviet Union. Yang Xiaoyun, an energetic young peasant, sold five tons of grain last summer for about $2,800. Recent agricultural policies have made it worthwhile for the Chinese peasant to work harder. Instead of earning work points for time on the job, most peasants are now being paid for what they produce. But when Mr. Yang decided to treat himself to a new bicycle with his windfall, he could not find one in any of the stores in Hubei Province. Factory workers at the bicycle plant in Shanghai still only get work points.

Meanwhile, ticket scalping for seats in the Bolshoi and other leading Moscow theaters has become such a lucrative business that gangs are going to war against one another to corner the market, according to a Soviet newspaper. "Enterprising people realized that the only way to get hold of tickets to popular shows was to set up unofficial firms at each of the leading theaters," the newspaper *Sovetskaya Rossiya* said. The newspaper said the companies were generally made up of youngsters out to take advantage of the "inefficient distribution system" for the tickets. Perhaps theater-goers should trade stories with Mr. Yang.

☐ **The "Don't Hold Your Breath"** Department: Eleven American claimants have filed with an international tribunal at The Hague seeking hundreds of millions of dollars ripped off after the Iranian revolution. American individuals and companies have until January 19 to file claims, but a tribunal official has said there is no stampede expected. Why would there be? A nation that thumbs its nose at the World Court, rubs American noses in the dirt for 444 days, and executes its own citizens at a pace that makes Murder, Inc., look like a Boy Scout troop isn't likely to be too concerned about an unpaid debt to Joe's Widget Co. of Newark, N.J.

☐ **The beat goes on:** Lawrence A. Kudlow, installed by the Reagan administration as chief economist of the Office of Management and Budget, has coined the term "revenue enhancement." And what could that be? Us ordinary folks call it a tax increase. One euphemism, though, apparently won't do the trick. Kudlow also uses the phrase "receipts strengthening." Kudlow says he started talking this roundabout way while drafting the fact sheet the White House issued to reporters to explain its request for $3 billion more in tax revenues and $13 billion more in budget cuts. Why didn't the White House call a tax increase by its proper name? "There's no better way to sell economic theory than by the euphemistic route," Kudlow says.

—Mark Edward Crane

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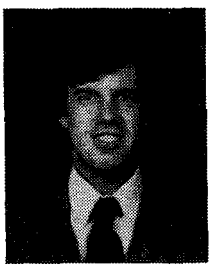

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He founded the Tucson Libertarian Supper Club, worked with the MacBride for President campaign, and served as advisor to 12 Libertarian campaigns in Arizona, Nevada and California.

When he ran as Libertarian candidate for Congress against Arizona's Morris Udall, Michael received 5,000 votes on a bare-bones budget of $1,000.

As speechwriter and ghostwriter for 52 political candidates, Michael has written 109 articles and speeches. His provocative essays in libertarian movement publications ("How to Get Converts Left and Right" in *Reason* and "The Late Great, Libertarian Macho Flash" and "The Militant Mentality" in *Frontlines*) have stirred a storm of controversy and become underground best-sellers.

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trends

Local Telephones: Goodbye Monopoly

Ever since the establishment of state public utility commissions in the early 1900s, local telephone service has been assumed—and forced—to be a monopoly. While long-distance telephone has been opened to some competition over the past decade, even most of those now shaping the telephone deregulation bill in Congress make an exception for local service. That, they presume, must remain a monopoly.

Yet that hoary assumption is even now being demolished by entrepreneurs in the marketplace. The past year has seen the initiation of competitive local telephone service in New York City and Minneapolis. And plans are under way to set up such service in scores of other cities within the next year or two.

The forcing function is the growth of computerized data systems. These systems deal with digital data transmitted at extremely high rates of speed—within buildings and over long-distance digital networks (for example, microwave). Yet most of the Bell System's telephone network, especially its local service, is designed to handle slow-moving *analog* (not digital) signals of the type inherent in voice communications. Hence, the connection of computer systems to long-distance communications links via the local (analog) phone system has become a real bottleneck.

To the rescue have come new communications entrepreneurs. One of the first was Minneapolis-based ShareCom, which had been offering discount long-distance voice and data service. In October 1980 ShareCom began offering its Minneapolis customers local service, as well, bypassing the local telephone company. International Telephone and Telegraph has begun offering its long-distance customers a similar service in New York City.

Both ShareCom and ITT install their own wire and cable network. But there are alternatives to this costly approach. Manhattan Cable TV has found a secondary (and profitable) use for its cable-TV lines: providing local telephone links to computer users. Among its customers are the city government and Chase Manhattan Bank. Besides one-third lower costs, the cable service provides a five-times faster data rate. A third way to bypass local phone lines is to set up a local radio system using microwave frequencies, as authorized last January by the Federal Communications Commission. Tymnet, Inc., plans to spend $65 million setting up such systems in 50 cities to connect up its data-system customers without using local telephone services. Boston-based MACOM is developing a similar radio-based service, as is giant Satellite Business Systems, a joint venture of IBM, Aetna Insurance, and Comsat.

At present these alternative phone services must operate as "private" networks, due to state laws granting monopoly franchises to local telephone companies (which offer their services to everyone). But if those monopolies were voided, nearly everyone—not just well-heeled business computer users—would soon have a choice of phone services. With most other telephone service being deregulated, cross-subsidies are being phased out, meaning that local service will finally have to pay its own way. That is already leading to large hikes in local phone rates and complaints from consumers.

But if Congress could see through the myths of local-telephone-service-as-monopoly, it would *include* rather than exclude local service in the pending deregulation bill. That would offer consumers relief, thanks to competition, and would solve the knotty problem of the Bell System being tempted to siphon off monopoly profits from its local service to undercut rivals in deregulated long-distance markets.

Private Pensions Coming of Age?

As the Social Security system rapidly slides toward the brink of its demise, the public's confidence in the system is falling sharply. According to a Sindlinger survey conducted for the Heritage Foundation in the late summer of 1981, nearly two-thirds of those surveyed were by then in favor of Social Security becoming voluntary. And a full two-thirds of the survey respondents consider "private pension alternatives more efficient in providing retirement benefits than the Social Security system." Only one-quarter prefer Social Security to other alternatives.

With growing public dissatisfaction with Social Security, alternative plans are being issued from many quarters. Some are merely proposals to patch up the system, but these by and large involve instituting publicly unpopular measures—increasing Social Security "contributions," cutting benefits, tightening eligibility requirements, etc.. The severity of the situation has sparked more radical suggestions from normally conventional quarters.

One such proposal—abolishing the Social Security system and replacing it with private individual retirement accounts—was advocated by the Burlington (Vermont) *Free Press* in an October 1981 editorial and seconded three days later by another Vermont paper, the *Caledonian-Record.* That proposal may sound familiar to REASON readers: the *Free Press* plan is essentially that developed by Peter Ferrara and reported here some months ago (Trends, Feb. 1981). Such a system, the editors note, "would be handled without government intervention."

Though this plan is not fully voluntary—contributions to these accounts by both employer and employee would be mandatory—it would be a move in the right direction.

TV Reaches Out

Two emerging developments in the television industry—one in programming, the other in technology—make evident just how embryonic this industry is and how unlimited its future and profits may be.

When cable-TV came into being, it was discovered that out there in the general American TV-viewing audience there were many smaller—yet sizable—audiences waiting for all sorts of specialized entertainment. And so cable responded with all-movie networks, all-sports networks, all-news networks.

One of the latest trends in specialized cable programming is theater—Broadway and off-Broadway shows. Major cable companies like Home Box Office, Showtime, and RCTV are buying up the rights to the taped versions of theatrical productions, and these shows are increasingly being scheduled on the pay-TV services. Home Box Office, for instance, is reported to have negotiated for the rights to the revived *Camelot*—for about $1.2 million. RCTV has paid

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RWB & Co keep its operation efficient, its overhead trim, and its advertising under control. In ten years of operation, no representative of RWB & Co has ever made an unsolicited sales call. Direct ("junk") mail solicitations are not used. Toll-free phone calls are limited to established RWB & Co clients. These efficiencies are passed on to its clients in the form of lower prices – prices that are the lowest in the precious metals trade.

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2. Delivery: Is safe delivery of the goods you purchased guaranteed? Is delivery frequently delayed for reasons not specified by your current dealer? Are your inquiries about shipments treated with bureaucratic hassle?

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3. Reliability: Does your current dealer have an established track record of smooth operation, efficient delivery and reliability during the massive bear markets as metals have seen during the contractions of 1972, 1975, and late 1980, as well as the bull markets of 1971, 1974 and 1979-80?

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R. W. Bradford & Company is the successor to Liberty Coin Service, a pioneer in the precious metals brokerage field. It was founded by R. W. Bradford in 1971 to specialize in the sale of hard assets to investors. It regularly advertised in libertarian periodicals since its inception in 1971. From 1972 to 1981 it was operated in Lansing, Michigan, in conjunction with a retail precious metals and coin store.

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On July 1, 1981, Bradford liquidated the retail operations and moved the business to Port Townsend, Washington, where the business has returned to dealing exclusively in its original specialty of precious metals brokerage. "The name was changed," Bradford says, "to emphasize our nature as a private business. We stand on our record as a profit-making enterprise without hiding behind an institutional name or limited liability corporate structure. During the past decade we have grown from a modest brokerage firm to an efficient operation with clients in nearly every state and a dozen foreign countries. Our record speaks for itself."

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$600,000 for cable rights to *Pippin*. And after the cable screenings of the shows, there will be revenues from the sales of videodiscs and cassettes.

Perhaps one of the hottest potential specialty markets in cable is pornography. And sure enough, cable programmers are responding. As yet, however, only about a half-dozen systems offer erotic entertainment, reaching perhaps fewer than a million viewers. The response is slow not because there isn't high demand—the majority of prerecorded video tapes sold are X-rated—but because X-rated programming is a controversial subject in many communities. Since most cable companies are given an exclusive franchise by the municipality, the company has to play by the local government's rules—and this often includes: no X-rated programs.

In communities where cable companies *have* offered an optional service of sexually explicit films, at least 50 percent, and as many as 95 percent, of the cable customers have been willing to pay the extra fee for this service. It is expected that with the advent of technology—such as a "lock box"—by which such programming can be made inaccessible to those for whom it is not intended (children, especially), erotic entertainment options will be offered by more and more cable companies.

On the technological front, the development of TV satellites has sparked intense competition among programmers for satellite broadcast time—and not exclusively among entertainment programmers. Orbiting satellites house transponders that transmit TV signals to receivers on earth. Currently, there are only nine such domestic satellites in orbit, most of them housing 24 transponders each. And all positions are occupied.

Such transponders are valuable to TV companies because satellite transmission of programming can reach larger audiences than if broadcast from the ground. Though it is estimated that TV satellite capacity will triple by 1984, this is not expected to meet the spiraling demand for satellite space. The scarcity of satellite services is enforced by the Federal Communications Commission, which controls the number of satellites that can be launched into orbit and how and at what price space on the satellites can be sold.

Meanwhile, the development of satellite networks serving specialized audiences continues apace. The US Chamber of Commerce, for example, is now building Biznet—the Business Advocate Satellite Network—to transmit programs and news to corporations and to local chapters of its organization throughout the country. Carl Grant, vice-president of communications for the chamber, expects Biznet to be able to bring the views of public officials and candidates to its audience without worrying about "equal-time" regulations—because it will be a private network. Labor unions, political organizations, and other groups also have plans to develop satellite networks to reach their own members and the public with specialized information and their own points of view.

Cleaning Up the Clean Air Act

Who could be against the general goal of "cleaning up the environment"? But when it comes to specific legislation to achieve those goals, people are not confronted with the costs of doing this much or that much cleaning up or doing it this way or that.

Now, Kenneth Chilton and Ronald Penoyer, researchers at the Center for the Study of American Business at Washington University (St. Louis), have made a study of the cost-effectiveness of the 1970 Clean Air Act. Their conclusion: "While the Clean Air Act has demonstrated a beneficial effect on air quality, it has done so at a high price."

How high? In 1979 alone (the most recent year for which there are estimates), the costs of the act totaled *$22.3 billion.* This means that a family of four, in 1979, paid a $400 "hidden sales tax" in the form of higher utility rates and higher prices for nearly all manufactured goods. The researchers project that for the 1979-1988 period, nearly $300 billion more (in 1979 dollars) will have to be spent to meet the requirements of the act; by 1988, the annual bill to a four-person family for air-pollution control is expected to exceed $630 (in 1979 dollars).

Chilton and Penoyer also point out many other ways—*not* included in the total cost estimates—in which clean-air regulations affect the nation's economy: permit delays that add to construction costs; lags in initiating new projects due to potential environmental challenges; and conflicts between goals to decrease US energy dependence and to reach clean-air objectives.

But the act could be made more cost-effective, suggest the researchers. They recommend changes aimed at reaching the same quality objectives but with a lighter burden on the economy. Among their recommendations are the following:

- Base air quality standards on data compiled by an independent scientific body, since the Environmental Protection Agency's data are open to criticism.
- Allow the states to set their own "secondary" air-quality standards, which are not related to human health.
- Streamline the various complicated forms of control technology that businesses must install under several confusing designations.

Chilton and Penoyer emphasize that such changes in the act would not trade lives for dollars. "It is impossible," the researchers note, "to create the zero-risk society that is implied in many of the current provisions of the Clean Air Act." But if their recommendations are implemented, they say, "these changes will provide . . . the same level of benefits at a greatly reduced cost to the American consumer."

Meeting Needs in the Medical Market

It appears that entrepreneurs are forging inroads even into one of the nation's most highly regulated service industries: health care. One of the most visible signs of this development is the growing number—and popularity—of free-standing emergency centers (FECs), run for profit by private physicians. More than

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150 and possibly as many as 200 FECs have sprung up in numerous cities and towns from coast to coast since the early 1970s, when they first appeared in Delaware and Rhode Island.

Though the services offered at some FECs include treatment of full medical emergencies—heart attack and automobile accident victims, for example—most are directed at simple medical problems such as sore throats, sprained ankles, and uncomplicated bone fractures. Because they are open longer than private physicians' offices and are generally 50 percent less expensive than hospital emergency rooms, FECs have found a profitable niche in the health-care business. And the potential demand for their limited services is high: 30 to 70 percent of an annual 90 million emergency-room cases are nonurgent.

Critics of these facilities doubt the quality of medicine that is dispensed. Others contend that by taking the bulk of private patients away from hospital emergency rooms, hospitals will be even more fiscally drained by having to absorb the costs of uninsured and charity patients, many of whom use the emergency room in lieu of a family doctor.

The answer to this last concern may be to make the move that some Los Angeles County hospitals are now studying—turning over their own emergency rooms to private contractors. Like many other public services, hospitals are facing serious fiscal difficulties that are pressing administrators to considering other methods of running the system to keep costs down. In addition to studying the possibilities of privately run emergency rooms, the hospitals also are considering contracting out their food service, laundry, and billing and collections departments.

In response to charges of less-than-standard care, the experience of one FEC firm, MedStop, speaks loudly. Medical director Dr. David Carlyle reports that MedStop's three clinics, one in Dallas and two in Houston, have treated 135,000 patients since 1978—without once being sued for malpractice.

Capital Gains and Gaining Capital

In one of his recent syndicated columns, *National Review* editor William F. Buckley, Jr., turned the tables on the media. Buckley first quoted the *New York Times* on what it gleefully called the panic within the Republican Party after the market reacted negatively to the prospect of larger deficits—this, Buckley noted, when "the record of the Reagan administration still has to be made." What *is* on public record, he noted, is the *New York Times*'s economic recommendations and prophecies.

When the Steiger capital gains tax cut passed in 1978, lowering the top rate from 50 percent to 28 percent, the *Times* strongly opposed the measure. A year later, it ran an editorial flatly claiming that the tax cut "didn't work." Claimed the *Times*: "The proportion of America's resources devoted to investment has not increased during 1979, and it is expected to decline in the coming recession."

And now should we worry because the effective maximum tax on capital gains has been yet again lowered (as of June 9) to 20 percent? Certainly not, Buckley says, because the *Times* is very wrong. Here are the figures he provided on capital raised by small firms via stock offerings:

1977 (old law)
equity capital = $42.6 million
public offerings = 13 companies

1979 (new law)
equity capital = $183.0 million
public offerings = 46 companies

1980
equity capital = $821.0 million
public offerings = 135 companies

1981
equity capital = $2.2 billion
public offerings = 348 companies

And firms with less than 20 employees, Buckley points out, provide *66 percent* of all new jobs. (Firms with 100 or fewer employees provide 81.5 percent of all new jobs.)

As to the market's reaction to the Reagan program, Buckley wrote, the Reagan budget cut of 5 percent is just too small, especially combined with a tax "cut" of $80 billion. The market has simply concluded that the two figures just don't add up.

New Prospects for Sea Prospectors

While seabed manganese nodules have been talked about for a decade, within recent months geologists have discovered immense new deposits of ore—rich in copper, silver, zinc, iron, lead and other minerals—in various places on the bottom of the Pacific Ocean. What's interesting about these particular deposits, worth billions of dollars, is that they are clustered on the ocean floor around volcanic vents, and "mining" them would consist merely of scooping them up. The deposits are located 7,000 to 8,500 feet underwater, but the technology to recover the ore now exists.

American industries can be expected to start looking at the deposits as possible resources, but the situation is complicated by the fact that the ore rests in international waters. And if the world's nations agree to the Law of the Sea treaty that 154 of them have been negotiating since 1973, the free market may never be able to benefit from these newly discovered deposits. (See "The Seabed Power Struggle," REASON, July 1974.)

Treaty talks are to resume in March in New York, and if the treaty as currently drafted is accepted, seabed mining in international waters will fall under the jurisdiction of a supranational body, the International Seabed Authority (ISA). Under ISA supervision, the oceans' floor would be regarded as the common property of the world. Seabed resources would be regulated by the ISA, which would have sole authority to issue licenses to companies wishing to mine the oceans for minerals. In addition, the ISA could impose taxes on these companies for the benefit of Third World nations—which would have majority representation in the one-nation, one-vote system—and could require a transfer of knowledge and mining technology from the industrialized nations to the developing nations.

High-ranking authorities in the current administration continue to voice concerns over the treaty, however, precisely because of such provisions. Secretary of State Alexander Haig has called for a thorough review of the treaty, and the US delegation to the treaty talks has been ordered to proceed no further until the review is complete. More recently, Navy Secretary John Lehman, Jr., has warned that the proposed treaty may be very detrimental to the interests of the United States—a major shift, since until recently the Navy has supported the treaty because it guarantees access to various straits.

In light of the newly discovered ore deposits and the concomitant reassessment of free-market potential for seabed minerals, the current administration's hesitance to enter into such a lopsided treaty seems well-advised.

Banishing Some Gold Bug-a-boos

Any proposal to return American currency to a gold standard invariably collides with a popular fear that the Soviets

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could wreck our monetary system by flooding the international markets with vast amounts of gold. Could the USSR successfully pull off such a coup? Roy Jastram, a professor at Berkeley's School of Business Administration and author of a September 1981 study on the gold standard commissioned by the Joint Economic Committee's subcommittee on monetary and fiscal policy, has demonstrated that such a feared Soviet stranglehold over a gold-based currency is entirely fictional.

Jastram, in an August 1981 *Wall Street Journal* article, argues that the Soviets, even if they were so inclined, just do not have enough gold to do damage to an American gold-based currency. Against US government holdings of 8,227 tons of gold (in bullion in Fort Knox), the Soviets have about 1,900 tons—or less than one fourth of US holdings. Furthermore, this amounts to only 7 percent of the gold held by all Western countries. And, Jastram continues, even if the highly speculative figure of Soviet unmined reserves—about 7,900 tons—proved true, this would still be less than what the US government already has mined, refined, and in safe keeping.

The last time the Soviets "flooded" the market, they poured out an amount of gold that totaled 1.2 percent of the holdings of the free-world governments. As Jastram calculates it—and his figures are based on International Monetary Fund statistics—the USSR could produce at its upper limit of about 280 to 350 tons annually for an entire century and just match the amount of gold already held in the free world's central banks. And what would it take to do even that? Even if the USSR could match South Africa's remarkable efficiency in mining gold, it would have to mine more than four tons of ore for every ounce of gold it could extract.

As Jastram concludes after revealing these telling statistics, "Russia is not likely to be able to swamp the world with gold even if it dared divert its sorely tried industrial sources to such a dubious venture."

In his study for the Joint Economic Committee entitled "The Gold Standard: Its History and Record against Inflation," Jastram counters other misconceptions about a gold-based currency, including, for instance, the notion that interest rates and the price of gold always move against each other. "In the long run," Jastram states, "interest and the price of gold move together." The study also provides further evidence of the price-stabilizing effect of a gold-based currency. It is a strong case for a return to some form of a gold standard.

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Unjamming the Judicial System

California, perhaps more than any other state, is taking bigger and bolder strides in the direction of privatizing the dispensation of justice (Trends, Jan. 1981). Although such movement is not without opposition, support for it has now come from an official body.

In a report released this past fall, a 12-member task force of the Los Angeles County Economy and Efficiency Commission observed the workings of justice there and came to some hard-nosed conclusions about how to improve the court system. The commission report called for instituting user fees to cover more of the costs of civil court services, including the costs of process-serving, of reporters' services, and of providing a panel of 30 to 40 prospective jurors. The report also recommended encouraging the use of arbitration, private adjudication ("rent-a-judges"), and neighborhood justice centers, all of which are currently being used in California.

The report details how these measures would both control demand for service, thus relieving some of the burden on a court system that has over a four-year backlog of cases, and save taxpayer

money. Currently, taxpayers in Los Angeles County are shouldering 85 percent of the costs of operating the civil court system.

Although the task force report received praise from several ranking members of the Los Angeles judiciary, other influential parties have criticized attempts to improve upon the delivery of justice by letting the private sector have a hand in it. The *New York Times,* for instance, has labeled the rent-a-judge alternative "repugnant" (see "When Everything's Private...," REASON, Nov. 1981). California Chief Justice Rose Bird concurs, calling it "a long step backward." And most currently, heavy lobbying by the Los Angeles County Bar Association led county officials to withdraw for further study a county plan to contract with private firms to provide public defender services for some indigent criminal defendants. Provision of such services in the cases at issue is expected to cost Los Angeles County $18 million this year. An experiment with private contracting in Pomona, California, has cut costs by 34 percent, but Los Angeles County Bar spokesmen raised fears of a decline in the quality of public defense.

Despite objections to cost-cutting and privatizing measures, the report from the Economy and Efficiency Commission warns that drastic measures must be instituted or the situation will worsen. Thomas Kranz, chairman of the task force, noted that "the judicial system is in danger of breaking down because of monumental congestion." Indeed, the *real* danger appears to be that the public system of justice is becoming more and more inaccessible to those whom it is supposed to serve. Private alternatives arise as a response to that situation.

The Perils of Planning

Centralized planning is taking a heavy toll on the economies of many of the major socialist nations, and American observers are taking note. Articles appearing in two fall (1981) issues of *Business Week* have detailed the reasons for the sharp decline in the economies of the Soviet Union and in five nations in its sphere of influence: North Korea, Poland, East Germany, Hungary, and Cuba. In each case, it is the failure of central planning—its inability to adapt and respond quickly to economic forces—that is identified as the cause of the problem.

In Poland, for example, where annual growth in real GNP fell from higher than six percent in the period 1970-75 to less than two percent in the period 1975-80, the central-planning authorities invested in inappropriate, energy-intensive industries requiring great amounts of imported materials; when the Poles ran out of hard currency and could get no further credit, these industries were squeezed.

Furthermore, a distorted price system discourages production and encourages misallocation of resources. One telling example of this distortion comes out in the price of coal in Poland, which is kept below the international price by government fiat. Consequently, the Poles use a lot of coal to produce goods that are exported at cheap prices, but in some cases they would be better off simply by exporting the coal itself.

Such difficulties are replicated throughout the economies of the socialist nations. The Soviet economy in particular is facing turbulent times. While the USSR continues to divert 12-14 percent of its GNP to military spending, its citizens are suffering from shortages of basic goods such as food. Indeed, the Soviets plan to buy $6 billion worth of grain from US sources to cover their own inadequate harvest. The fundamental problem is central planning: the absence of market prices and profitability criteria lead to inefficient use of

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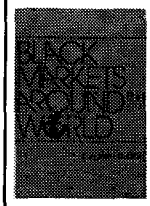

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resources and less than maximum return on investment.

Some sectors of the socialist economies have evolved into subeconomies that operate in ways resembling the free market. In the Soviet Union, for instance, many farm workers put little effort into the large collectives where they are employed but work hard on their own small plots to produce goods that they either use themselves or sell in markets where the prices they get are higher than the official Soviet prices. Such incentives, however, are absent from the official workplaces, so production—not to mention innovation—suffers.

Recreational Innovations

On some beaches in Los Angeles County, bright yellow trash cans stick prominently out of the sand. What's so unusual about this? It's what's painted on the cans: the slogan "Tan, don't litter" and the Coppertone logo. Coppertone gets to display its logo to about 65 million beach-goers because it provides the receptacles to the county free of charge and replaces them when needed. For the county's Department of Beaches, its deal with Coppertone is just one of several new ways it has found to cut costs—in this case, about $30,000.

Only a short time ago, such "creeping commercialism" on the county's beaches would have been unthinkable. Now, however, with rising costs and shrinking budgets, many municipal recreational facilities have been forced to consider various ways to exploit the private sector in order to maintain services. For the first time ever, for instance, Los Angeles' Griffith Park is charging entrance fees to private vehicles. And the Department of Recreation and Parks of Los Angeles County is considering granting long-term leases on parklands to hotels, restaurants, office buildings, and condominiums. These leases would bring the department revenue needed to maintain its level of service.

The county's Department of Beaches has allowed companies to advertise for a fee on beach tide boards and on its official vehicles. And it too is considering leasing land to business concerns such as restaurants. And Seven-Up has organized a litter patrol of children—decked out in Seven-Up litter patrol uniforms—who are paid to comb the beaches for litter during the summer months. While this arrangement does not bring the department revenue, it offers a way to reduce the budget and avoid higher user fees.

If fiscal pressures keep up, however, and public systems can't respond, some municipalities may resort to what Long Beach, California, did more than a year ago: lease an entire major public recreational facility—the Queen Mary luxury liner—to a private management company. After having lost more than $70 million on the liner without ever showing a profit, Long Beach granted a 40-year lease to the Wrather Corporation, which has invested at least $25 million into renovating the vessel to bolster business. Though revenue figures haven't yet reached what the corporation had expected, tourist attendance for the first part of 1981 was up 6 percent over the same period of the previous year when the liner was still managed by the city. And by August 1981, the corporation has reported, the enterprise was indeed turning a profit.

Milestones

• *Abolish the ICC?* Perhaps Reagan is feeling the pressure from raised eyebrows over the apparent backtracking on deregulation by his appointees at the Interstate Commerce Commission (see "Regulation Retread," REASON, Dec.). Drew Lewis, Secretary of Transportation, now says that he would favor abolishing the ICC by the end of 1984 if it could be done without disrupting commerce.

• *Costly Cleaning.* The General Services Administration (GSA) may be spending 50 percent more than necessary by using federal employees to clean government office buildings, says a General Accounting Office report. The report recommends that GSA contract with private firms to provide custodial services. But it could take 15 years to switch over, the GAO report says, costing taxpayers $250 million.

• *Unscrambling Pay-TV.* The Federal Communications Commission (FCC) may drop a rule limiting pay-TV to areas served by at least five commercial stations. Currently one million customers subscribe to one of two dozen pay-TV services, which have been limited by the FCC rule to operating in 74 out of a potential 213 US markets. Pay-TV programs are broadcast over the air in scrambled signals, which are decoded by a special device on the customer's TV set. The FCC may also drop a rule that prevents subscribers from owning their own decoding devices and one that requires pay-TV stations to carry a minimum of 28 hours of programming per week free of charge.

• *Private Addresses.* One of the little-noticed but vital functions thought to be doable only by government is the assignment of house numbers. But now the phone company, Mountain Bell, has stepped in on sparsely populated rural areas in the West. Although local governments had never bothered, Mountain Bell needed house numbers, and so it devised a system. It has been implemented in 49 counties in Colorado and 10 in Wyoming, and now the company is eyeing 5 more western states. Mountain Bell usually absorbs the costs—$130,000 for 5,000-population Laramie County, Wyoming, for example.

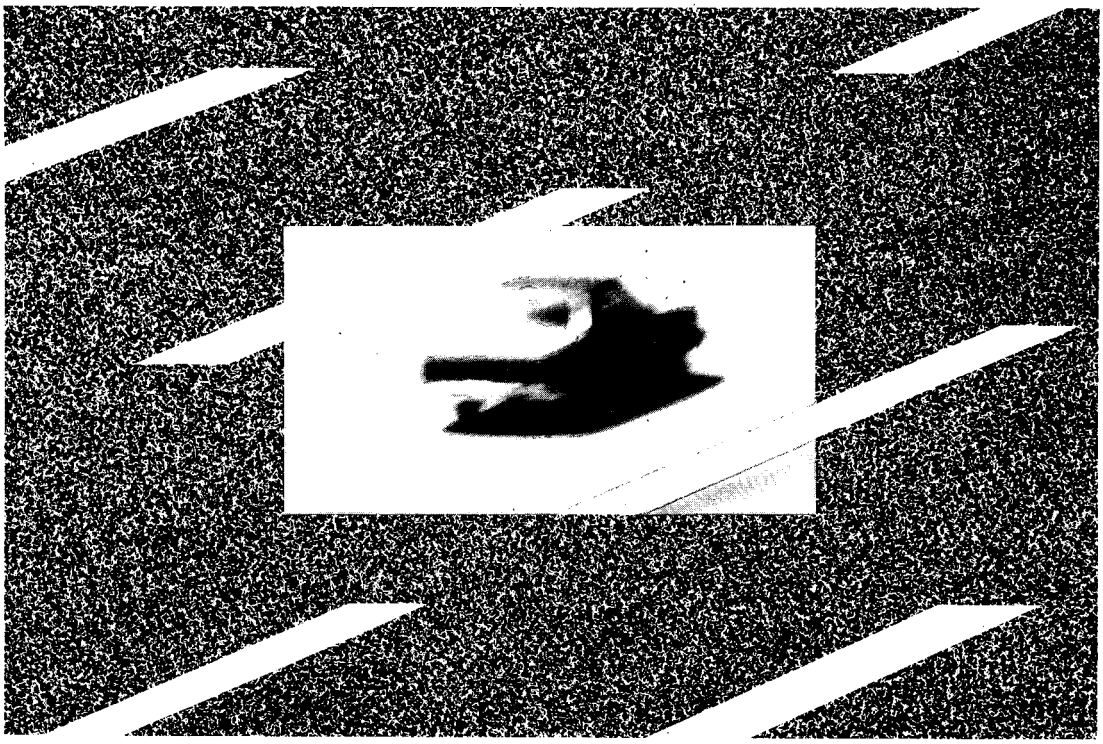
• *Ad Ban Abandoned.* The Federal Trade Commission (FTC) has dropped a plan to regulate television commercials directed at children. Proposed restrictions included a ban on commercials aimed at children "too young to understand" the nature of the ads. The FTC, whose staff had initiated these proposals in 1978 under pressure from consumer groups, explained that it could no longer justify "sacrificing other important enforcement priorities" to continue with lengthy proceedings on the issue.

• *Supersonic Express.* Federal Express Corp., which specializes in overnight package delivery, may soon go supersonic. The company has approached Air France and British Airways about leasing two of their Concorde supersonic transports (SSTs) to fly high priority packages across the Atlantic. Frederick Smith, head of Federal Express, believes that this will finally make the SSTs profitable—something that neither the French nor British have yet been able to do.

• *Solidarity Comes West.* Solidarity, the independent Polish trade union, has branched out. In September of last year, the union opened an office in New York City—its first office outside of Poland—and held a news conference with the American press to inaugurate the event.

• *Rent Control Ruled Out.* The Sonoma County Superior Court has ruled that the northern California city of Cotati's rent-control ordinance is confiscatory. In 1979, Cotati voters approved a "rent-stabilization" ordinace that established a rent-control board, froze rents, and set a ceiling on allowable rates. When a local landlord was denied a rent increase in 1980, he appealed, and the Pacific Legal Foundation (PLF) entered the case as a friend of the court, arguing that the ordinance was confiscatory and pointing out its adverse social and economic consequences.

—Robert W. Poole, Jr., and Eric Martí



Rush Hour Remedy

Prescription for unjamming traffic jams: a unique combination of technology and economics

By R.S. Taylor-Radford

CATHARINE JAAP IS A SECRETARY for a lawyer with a law firm in Los Angeles, California. Her workday begins at 9:00 every morning, but she gets herself to the office by 7:30 or 7:40. An eager beaver? No. In fact, she reads the paper until 9:00. But to *arrive* at 9:00, she says, she would have to leave her home—"10 miles on the nose" from her office—even before 8:00 because of rush-hour traffic. Instead, she rises early, leaves at 7:15, and spends only 15 to 20 minutes door to door. Leaving work, she must wait until after 5:30 to begin the drive home.

"It's inconvenient," she admits. Stores aren't open in the morning and are often closed by the time she's going home, so she can't run errands along the way. Every day, five days a week, she spends at least 10 hours at the office—nearly 11 hours away from home. But "I decided years ago," she explains, "that that's how *I* was going to deal with" rush-hour traffic in Los Angeles.

Across the country, Joseph Dikdan is a vice-president of sales for a large computer services firm in New York City. He lives in Pine Brook, New Jersey, 26 miles due west of the Lincoln Tunnel. He could take a bus, but it's cheaper, he's found, to commute with another person, splitting the cost of gas and a toll into the city every day. "And the bus isn't any faster," he adds.

So he leaves Pine Brook a little before 8:00 in the morning. Like others who work in cities and drive during rush hour, he's resigned himself to expressway congestion as a way of life. "I know how to work around it" to reduce the problem to a minimum, he says. Still on the best of days, it takes him 40 minutes to make it into New York, and all too often travel time mounts to as much as an hour and 10 minutes, which works out to a "leisurely" drive averaging about 22 miles an hour largely on 55-mph roads.

Every workday, stories like these two commuters' are repeated all across the country. Millions of Americans work in major metropolitan areas. Some of these people take a train, some a bus. A few can walk or bike to work. But most of them, as anyone who drives can attest, take their cars.

The result is that the country's urban "expressways" have become anything but an express mode of travel. Originally designed to enhance the convenience and mobility of city life, they are increasingly a frustrating source of *in*convenience and limitations. Nor is congestion the only problem; urban

sprawl, pollution, and noise are also linked with the proliferation of expressways, or freeways, in the last few decades.

EXPENSIVE FAILURES

Politicians' and urban planners' attempts to solve the problem of urban expressway congestion have been a dismal failure. Traditional responses to congestion have been aimed at increasing the supply of roadway space or reducing the demand for it by providing alternative means of transportation. Neither approach has worked.

Until about 15 years ago, the knee-jerk "solution" to freeway congestion was to build more and bigger expressways. The most notable effect of this policy was a dramatic rise in the number of vehicles snarled in rush-hour tie-ups, leading economist Anthony Downs to formulate the Law of Peak-Hour Expressway Congestion: *On urban commuter expressways, peak-hour traffic congestion rises to meet maximum capacity.*

The reasoning behind this is not complex. Additional roadway capacity adds to the attractiveness of driving relative to other means of getting about the city. New drivers, and those who previously took other routes, are attracted to expressways if their travel time is lowered by using the new facilities. In the longer run, improved road systems, by providing ready access to the city, encourage more urban residents to settle in outlying areas. So in almost every case, carving out a new expressway or widening an existing one has been found to generate a greater volume of traffic than the planners had projected from prior trends. Sometimes congestion would be shifted from one site to another, but it would never be overcome.

Faced with the failure of the more-is-better approach—and with widespread dismay at "the paving of America"—transportation planners switched gears. Instead of increasing roadway supply, they now try to reduce roadway demand by diverting commuters to fixed-rail rapid transit systems. These projects require enormous capital outlays and heavy operating subsidies, but they are thought to be the only alternative to additional road construction and the attendant increase in traffic, pollution, and noise. The rationale for rapid transit rests on the belief that frustrated commuters would prefer a safe, quiet, relatively cheap ride to work instead of the hassle and lost time of battling the freeways. Unfortunately for the taxpayers in areas that have gone ahead with such plans, this supposedly commonsense belief has turned out to be false.

The Bay Area Rapid Transit District (BART), serving the San Francisco area, was the first modern fixed-rail system designed specifically to lure commuters from the roads. After an investment of over a billion dollars, analysis of traffic flows indicates that BART has succeeded mainly in drawing riders from buses and other preexisting public transit, without significantly affecting automobile traffic or congestion. The system now requires an operating budget of about $100 million a year, two-thirds of which is drawn from state and local taxpayers' pockets.

BART is often cited favorably by those seeking to bring rapid transit to other cities. The truth is, however, that it has been a monumental flop in improving the overall efficiency of transportation in the San Francisco region. In fact, the inflexible fixed-route layout is so ill-designed to meet the needs of a modern metropolis that regional planners have proposed land-use controls to force the population to live and work closer to the BART stations!

In the view of such planners, and many others concerned about traffic congestion and automobile pollution, nothing short of a comprehensive network of government controls can solve urban transportation problems. It is the private automobile that is the problem, they charge. If enough of us will not voluntarily renounce its use, then our freedom to choose times, places, and modes of travel—and even to choose where we will live and work—must be restricted.

In the face of the massive and costly failure of the traditional political "fixes" and the drastic implications of envisioned control of people's lives, it seems warranted to step back and consider an alternative. This alternative has played well in academic journals for years but has been steadfastly ignored by politicians and planners. It relies on some basic facts about people's use of any resource—including roadway space.

WHAT IS CONGESTION?

Congestion is a form of *queuing,* an economic phenomenon that can occur whenever the demand for a good, at a given time and place, exceeds the quantity that is supplied.

Some expressway congestion is transitory, of course, arising from interruptions of the traffic flow due to accidents, road maintenance, or other temporary conditions. Some is site-specific, associated with approaches to airports, shopping centers, and the like. But the most typical and recurring variety is caused by weekday commuters, whose demand for road space regularly outstrips the available supply, often congesting whole metropolitan areas.

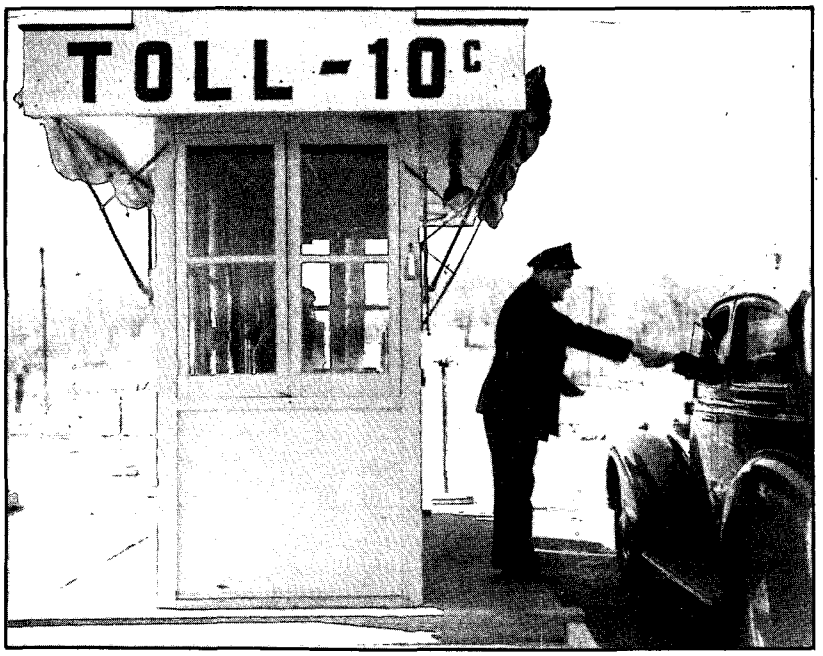
On any expressway, only so many vehicles, traveling at 50-55 miles per hour, can pass by a given point in an hour's time. When more than that optimal number attempt to use a particular stretch of roadway, average speeds are reduced, increasing the time it takes to drive that stretch. In other words, the average cost of roadway use, in time and operating expense, rises when congestion sets in.

There's a crucial point about the way these costs rise, though, and it can be clarified by a simple example. Suppose that any number of cars up to 999 per hour can drive a particular roadway segment in 20 minutes at normal speed. If an additional driver, car number 1,000, enters the roadway, it will take each car 21 minutes to pass through this stretch. Because the added vehicle causes the roadway to become slightly congested, its driver incurs a time-cost one minute greater than if he had driven at some other time. One minute is negligible to this driver, of course, and to each of the other 999 drivers whose travel time he has caused to rise by the same amount. Yet the addition to the *total* time-cost generated by this one additional vehicle is 1,000 minutes (one minute times 1,000 drivers). That's *16.67 hours*!

Enter now drivers number 1,001, 1,002, and so on, and the same thing happens. And the situation gets worse in another way: each additional vehicle causes a greater and greater increase in the time it takes each driver to travel this road segment. The more crowded the roadway already is, the greater the cost engendered by one more driver.

The actual costs, though, are not visible to the additional drivers. Place yourself in the shoes of driver number 1,000. For you, the decision say to drive now or at some other time when the road space is less in demand is a choice between 20 and 21 minutes. Since you don't bear the actual additional cost of your decision—the 16.67 hours—there's no way you can even perceive what it is.

The costs of goods and services are normally reflected in their prices (otherwise the providers would go out of business), and purchases are made only when buyers believe that the benefits to them are at least equal to the prices. The virtue of this system is that resources will be devoted to providing a good or service only so long as the benefits to be gained, as evidenced by consumers' willingness to pay, are not outstripped by the cost. The happy result, in economists' talk, is an efficient allocation of



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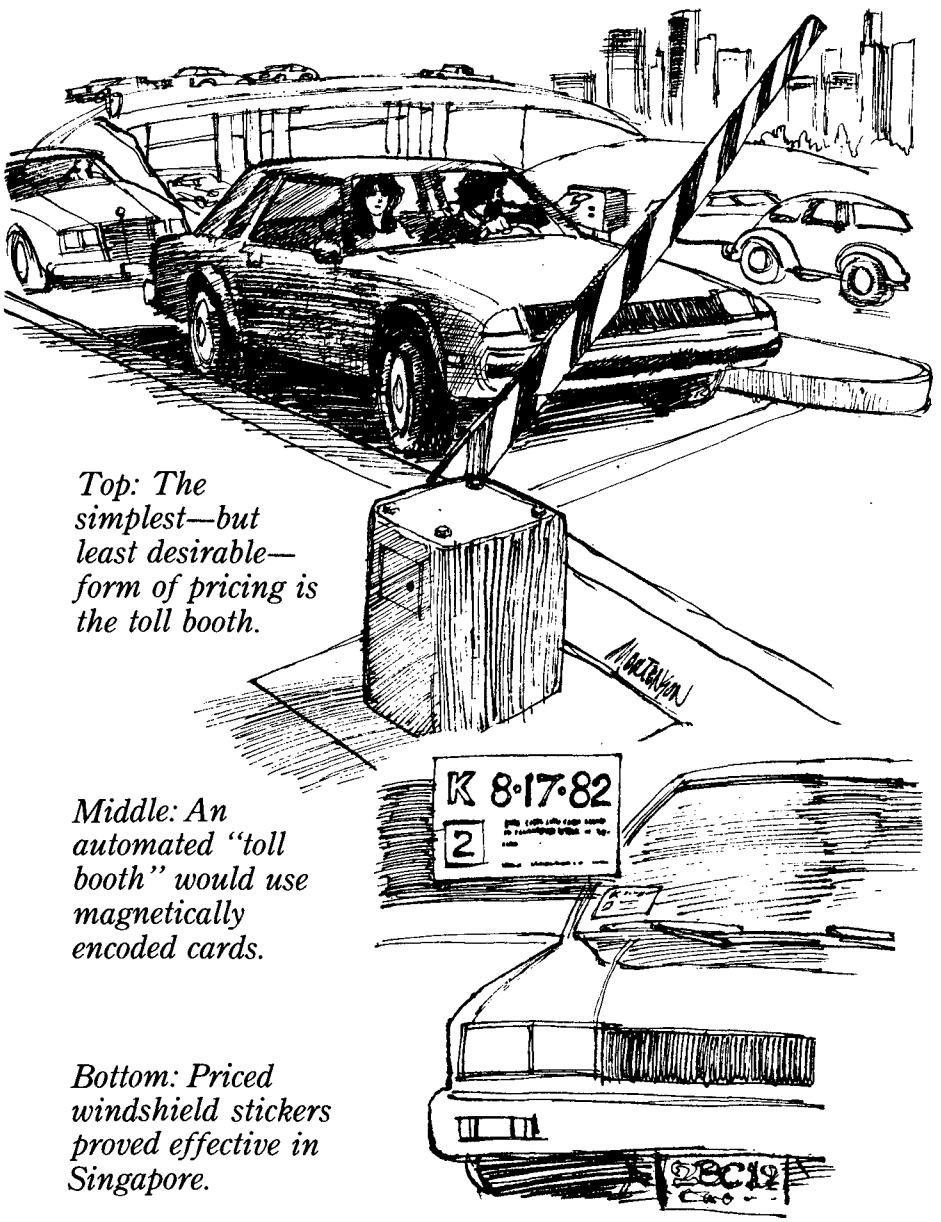


Top: The simplest—but least desirable—form of pricing is the toll booth.

Middle: An automated "toll booth" would use magnetically encoded cards.

Bottom: Priced windshield stickers proved effective in Singapore.

Illustrations by Denis Mortenson

resources.

Roadway space, though, is generally provided as a free good. Construction and maintenance, of course, are paid for through taxes and registration fees, but the *use* of roads is not priced. While there can be little doubt that the benefits gained by drivers 1,001, 1,002, and so on from using the expressway are nowhere near as high as the actual costs generated by that use, those are not the costs they face. The inevitable result is heavier-than-optimal traffic at the times and places of greatest demand—or an inefficient use of this particular resource, roadway space.

The consequences of this inefficiency can be staggering. Daily congestion costs for Los Angeles-area freeways have been conservatively estimated at 100,000 hours. If average driving time is valued at $4.50 per hour, at a typical vehicle occupancy of 1.1, these direct congestion costs come to $118.8 million per year. The greatest share of these costs is concentrated in the weekday morning and afternoon peaks, when traffic is 50 percent greater than during other daylight hours.

Obviously, increased travel time is by no means the only negative effect of congestion. Much air pollution (particularly airborne carbon monoxide) occurs primarily in areas of high traffic density and follows the same spatial and temporal patterns as expressway congestion. In Los Angeles, 40 percent of all vehicular smog originates during the morning rush hour, and it has been estimated that cutting peak-hour traffic by one-fourth would lead to a seven percent reduction in *total* smog. Noise pollution, too, is closely associated with heavy traffic and is known to reduce property values near congested routes. The total of these direct and indirect costs has not been, and probably cannot be, measured but could be safely said to amount to several billions of dollars annually, nationwide.

WHY NOT PRICING?

Once the problem of congestion is seen in an economic light—*at the times and places of greatest demand, roadway space is underpriced*—the sensible solution, no matter how difficult to make popular, is obvious: put a price on peak-hour use of this scarce resource. With nearly every other resource we have found pricing to be an admirable way of smoothly parceling out goods and services among competing users. But with few exceptions decisionmakers remain oblivious to the merits of pricing as a way of reducing congestion.

And it's not as though no one has been trying to point them in that direction.

The pricing approach has been recommended by economists for more than 20 years. William Vickrey of Columbia University, in a 1963 article in the *American Economic Review,* argued that "in no other major area are pricing practices so irrational, so out of date, and so conducive to waste as in urban transportation." Vickrey noted that private firms commonly charge different amounts for peak and off-peak services (examples: resort hotels, theaters, airlines), and that this principle could be applied to roadways.

If potential drivers faced not just their own time-costs but prices reflecting the actual costs of their decisions, they would have an informed basis for deciding whether the benefits of a given trip warranted using a central expressway at rush hour. Some automobile trips would be rescheduled, others rerouted, and some forgone altogether as car users found that alternative transit modes were a better buy. And with concrete knowledge of the benefits of various services—evidenced, as in any other market, by what people are willing to pay for alternatives—decisionmakers could establish rational spending priorities for maintenance and new construction and, assuming mass transit were priced in line with its costs, could guide future investments in alternative transit modes.

Since Vickrey took up the subject, roadway pricing has drawn keen interest from economists at Harvard, Chicago, UCLA, Stanford, and other academic centers. Writers in professional and scholarly publications like the *Journal of Transport Economics and Policy* have been debating the best means of *implementing* pricing for several years, having long since agreed on the necessity of such an approach. The Washington, D.C.-based Urban Institute has published nearly a score of studies, dating back to 1973, taking up various aspects of pricing as a solution to congestion.

Yet the steadily mounting theoretical support for roadway pricing has led to no significant applications in this country. This seems especially curious in view of the eagerness with which authorities have pumped billions of tax dollars into poorly conceived boondoggles like BART, which rested on little or no theoretical foundation.

In the few cases where pricing proposals have been put to transit bureaucracies, they have managed to squelch them through Catch-22 reasoning: congestion pricing is only an idle theory, they say, because it has never been applied; and it can never be applied, because it is only an idle theory. This argument not only relies on faulty logic; it conveniently ignores a conclusive demonstration of the utility of pricing in a city half-way around the globe.

Roadway pricing during the morning rush hour has been in effect in Singapore since 1975. A bustling metropolis of 2.2 million people and a quarter of a million cars, Singapore was plagued by chronic congestion in its downtown area when officials there decided to try a pricing system seven years ago. Access to the central city between 7:30 and 10:15 A.M. was restricted to vehicles displaying special stickers, priced at about $1.67 per day. The response was swift and dramatic. A study conducted by the World Bank reveals that the number of autos using the congested zone at rush hour dropped by 65 percent, reducing overall traffic by 40 percent.

What about the people for whom it was not worth $1.67 to drive in that time and place? Many rescheduled their trips, spreading roadway demand over a wider time span. Cars carrying at least four people were exempt from the charge, and the number of such car pools doubled after congestion pricing went into effect. Others formed smaller car pools to spread the cost of the fee over several riders. The city also encouraged commuters to switch to bus service by setting up park-and-ride shuttle services at various outlying posts.

The results in Singapore surpassed even the most optimistic predictions. But could rush-hour pricing work in America to relieve congestion on urban expressways? Skeptics reply that this isn't Singapore; Americans love their cars, and a pay-as-you-drive plan wouldn't achieve anything but political unpopularity here.

Back in 1973 the experts said that the American people wouldn't respond to rising gasoline prices, either. Only government rationing would get them to cut back on the use of this increasingly scarce resource. But an "amazing" thing happened on the way to the gas pumps: between 1973 and 1978, the annual increase in gas consumption slowed from 5 percent to 3 percent, and by 1979 consumption was actually falling, a trend that continues today. These figures, it has been found, represent not only a switch to more fuel-efficient cars but fewer and shorter automobile trips. "The experts" have had to eat humble pie.

PRICING TECHNOLOGIES

Another criticism has been that the technology applied in Singapore—daily or monthly stickers—is too primitive for the United States. Congestion costs in American cities change rapidly with respect to time and place, and the pricing mechanism should be flexible enough to match these changes. Ideally, roadway prices should be continuously variable, so that a vehicle entering a roadway segment would be charged according to how crowded the road is. At a minimum, prices should vary with the congestion that is characteristic of particular roads or road segments and times. Because Singapore did not use such a flexible system, it is sometimes assumed that none exists.

In fact, the literature on roadway pricing is replete with more sophisticated methods of charging users. Coming up with a workable scheme is probably the least significant obstacle to road pricing.

Even a licensing scheme can be made more sophisticated than Singapore's. In any such arrangement, drivers must purchase in advance and display a sticker in order to travel in congested priced zones. With variations in the color, number and letter codes, and shape, such stickers could allow differential pricing for various typical levels of congestion associated with different zones and times of day.

Such an arrangement has certain advantages compared to other proposed methods: the stickers are easy to use; the system does not require a large initial investment; and its overall costs are estimated to be low. On the other hand, the more it allowed for differential pricing, the more complicated it would be to administer. Also, enforcement, via monitoring of moving vehicles, would pose difficulties. (With 22 points of entry into its priced zone, Singapore found that one or two extra policemen were required at each point, but this was for a simple two-sticker [daily and monthly] system.)

Another method already familiar to drivers is the use of conventional toll booths. In order to enter a priced zone, vehicles have to come to a stop and pay a fee. Disadvantages are the delays associated with stopping and the large initial investment for toll plazas. There are also difficulties with charging by time-of-day: drivers anticipating an impending decrease in charges might slow down or stop and wait, thus causing congestion; but if this obstacle is met by gradual changes in the toll, administration and payment of tolls become cumbersome.

A modified toll-booth system could overcome this problem by using magnetic cards and monthly billing, much like telephone or utility bills. But the system would still be saddled with high initial capital costs and the need for drivers to stop, both disadvantages counting heavily against its feasibility for a modern urban expressway system with a huge number of entry points.

The on-vehicle meter functions like a taxi meter.

Less familiar to the public but well analyzed by those who have studied road pricing are various metering options by which charges can be applied for driving at specific times and locations. These include on-vehicle meters and Automatic Vehicle Identification systems.

On-vehicle meters operate much like a taxi meter. One type of device would require the driver to activate the meter upon entering a priced zone by "plugging in" a timer purchased in advance and good for so many hours of peak-time travel. Another type would be activated automatically as the driver entered a priced zone, via a signal from an electronic device embedded in the road. Payment would be similar to the system used for metered mail, with the meter periodically being presented for payment and adjustment. In both systems, enforcement could be effected through pilot lights on the outside of the car indicating that the meter is running.

The plug-in meters pose potential safety problems because they would have to be activated by drivers of moving vehicles. And while the automatically activated meters have the major advantage of allowing pricing flexibility along one continuous trip, the method of payment would be inconvenient for the road user and there is a potential problem with fraud because of the possibility of drivers tampering with the meters.

Automatic Vehicle Identification (AVI) systems use off-vehicle monitors at pricing points to identify cars as they enter and leave zones. A central computer records use by vehicle, time, and location. Itemized billing can then be issued on a monthly basis. Technologies proposed include roadside camera scanning of optical windshield labels (such a system has been used on railroad cars), laser beams, microwaves, and scanners embedded in the road to monitor low-frequency signaling devices mounted on the underside of automobiles.

DRIVING WITH AVI

The latter AVI system is considered the most promising technology for congestion pricing. Electrical induction loops in the road would pick up a signal from a small radio transmitter placed underneath the vehicle. The signal would give the vehicle identification code and this, along with the time and location, would be transmitted to a computer and user charges run up on a monthly basis. It would thus permit instantaneous identification and charging of moving vehicles without disrupting the flow of traffic and with minimal involvement by the user once the transmitter is installed.

Although there have been no tests to evaluate a full-blown AVI system in use, the technology has worked well for automatic truck and bus toll collection in New York and New Jersey. And tests have shown this AVI system to be highly reliable and unaffected by weather conditions, lateral movement of vehicles across lanes, and other circumstances that can impair some types of metering.

Because AVI would allow for many variations in rates by time and location, it is superior to stickers, toll collection, or other methods of charging at fixed rates. Aside from the advantages, from the point of view of pricing theory, of being able to relate charges to different conditions, there is another plus: as economist Ward Elliott, of the Rose Institute of State and Local Government of Claremont McKenna College, has pointed out, "Many regular road users, if they have to pay a congestion charge, would prefer a precise one to a rough one for the same reasons that they prefer itemized tax deductions to the standard deduction. Greater precision could save them money with lower charges for near-peak use, minor direction changes, shorter or more peripheral trips, separate charges for morning and afternoon peaks, and so on."

The economics of AVI compare favorably to other pricing methods and suggest a very positive ratio of benefits to costs. Prototype signal units, available from several manufacturers, have cost from $75 to $120. Unit costs in large-scale production have been estimated at $25 to $45. The cost could be charged directly to motorists at the time of installation or recovered from revenues. A scanner system costs about $32,000 per four-lane pricing point. Overall, an extensive AVI network of 200 pricing points serving 500,000 vehicles would entail an initial investment of perhaps $60 dollars per car, with operating costs of five cents per vehicle trip. The exact structure of charges would depend on demand patterns in specific locations, but the optimal price would undoubtedly exceed operating costs and should yield a reasonable return on the capital investment.

Implementing AVI would involve some administrative and enforcement problems, mainly in providing for road use by unequipped vehicles and in broadcasting the rate structure. Signal units should be readily available, perhaps at service stations, so that newcomers to the area could have one installed without delay and worn-out units could be easily replaced. A supplementary sticker system could handle out-of-area motorists, infrequent drivers, and those who, for reasons of privacy, preferred not to have their trips recorded on a computer. Rate schedules could be published in newspapers and posted along routes.

Sudden changes in the rate structure at peak hours would have to be avoided, or congestion would simply shift to the times just before the price goes up. Similarly, the value of efficient pricing on expressways would be limited if alternate routes on city streets remained unpriced. (An excessive diversion of traffic to surface routes might actually decrease the overall efficiency of the transit network.) The most practical solution in many cases would be to limit peak-hour street access to vehicles bearing specially coded stickers. This was the method successfully used in Singapore and could be price-coordinated with an AVI expressway system.

In no case would these technical details

surpass the complexity of operating a rapid transit system, rationing roadway use, or adopting other bureaucratic approaches being seriously advanced today. As pointed out by economist William Vickrey, who kicked off the debate on road pricing back in 1963 with his discussion in the *American Economic Review,* the obstacles to road pricing raised by skeptics "can be overcome by the exercise of a modicum of ingenuity such as would be normal for those genuinely interested in developing the possibilities...rather than merely defending the status quo."

PAYING POLITICS

The reluctance to give roadway pricing a fair trial can't be explained by its supposed lack of empirical support or adequate technology. The real problem is political. People are normally reluctant to pay for services that the government has provided "free" for generations, and most politicians would consider it suicidal to propose that they should. As motorists, we have been conditioned to think we have already paid for roadways through taxation and that we are therefore owed unlimited use of these resources. The result of unlimited use, however, is the frustrating phenomenon known as rush hour as well as serious health hazards for entire populations.

Those who object to explicit prices should understand that roadway use is already priced, though not directly and not efficiently. Each driver on a congested expressway pays part of the price for all other drivers, as they do for him, while all enjoy the illusion that no price is being exacted. As Ward Elliott has put it, "The man who objects to paying a one-dollar use charge today might pay it willingly if he knew he would otherwise have to pay five dollars tomorrow for building more roads (or a hundred dollars for building rapid rail), or else lose ten dollars worth of travel time from congestion the next day."

But who will educate the driving public in these matters? Unfortunately, the transportation bureaucracy, naturally placed to study and teach the benefits of pricing all transportation services, are at the beck and call of politicians who seldom dare to patiently bring the public around to an initially unpopular idea.

Six years ago, an eloquent case for pricing was advanced as part of the California Transportation Plan (CTP). The ultimate, crushing rejection of that proposal is often cited as evidence that roadway pricing is not a realistic option, by those who prefer the bureaucratic alternatives. But a close look at this odd chapter in our recent history shows that the CTP was a classic example, *not* of rejection of market-oriented solutions to politically induced problems, but of politics in action.

In 1972 the California legislature had mandated a comprehensive effort to produce a master plan addressing the state's transportation problems. Some $64 million was channeled into this project over the next six years, resulting in 41 local and 3 statewide draft plans—none of which was ever adopted.

A unique feature of the CTP was that the planning task force was not entirely composed of bureaucrats and people without any economic knowledge, as is usually true of such groups. In fact, one appointee to the State Transportation Board—Ross Eckert, at the time at the University of Southern California—was a lucid advocate of deregulation and a free market in transit services. Largely through his leadership, the 1976 draft CTP contained the clearest exposition of the case for user charges ever included in a formal policy proposal.

The plan challenged existing attitudes and called for greater individual responsibility in preference to state regulation and subsidies. "When people are responsible for paying for what they use," the draft noted, "only those services that are desired can continue to be offered." Specific recommendations included turning over "as many areas of transportation as possible" to private decisionmakers and basing transit policies on an accounting of full costs and benefits. User charges received special emphasis as a way to improve California's transportation systems.

The draft plan was presented at six official hearings. Testimony and written comments were taken from over 1,200 persons—overwhelmingly in opposition to the CTP. Virtually every elected official who appeared opposed the plan, which was characterized as "too ideological." Regulated and subsidized transit firms and their employees strongly objected to opening their markets to competition, even on a trial basis. Business groups spoke against road pricing, fearing it would hurt trade in downtown areas, and the Automobile Club of Southern California denounced the plan as making "auto ownership a luxury available only to the wealthy."

Following these hearings, the Brown administration rejected the draft and ordered the plan to be rewritten along more conventional lines. The market-oriented proposals were eliminated or watered down in the 1977 draft, but it too proved unacceptable, and the Transportation Board was simply eliminated the following year.

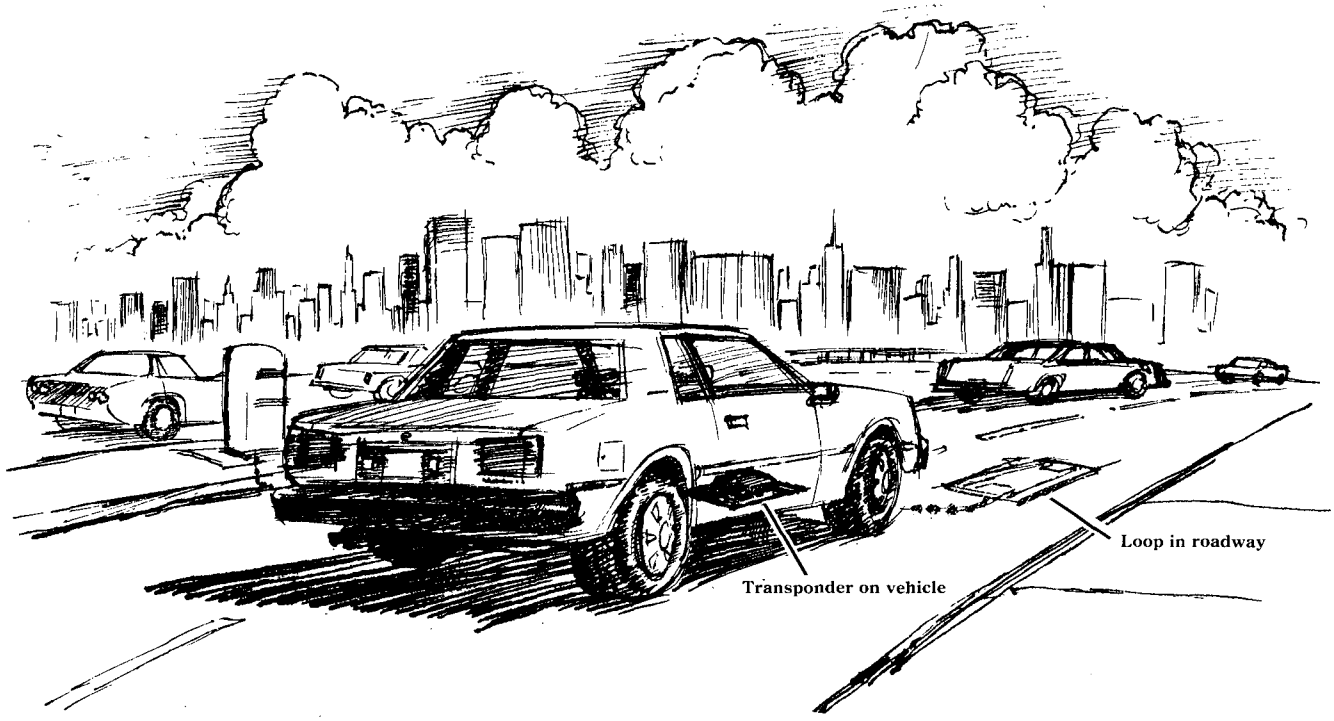
What caused the CTP to fail? One obvious factor was the composition of the groups offering testimony at the hearings. Individuals with a vested interest in preserving the status quo turned out in force to oppose the plan, while the great mass of persons who stood to gain from the proposed changes did not appear.

Another problem, however, was that, while the proposals for deregulation and pricing received wide attention, other sections of the CTP were drenched with the effluvia of the planning mentality. The draft called for *increased* state intervention in some areas, advocated centralized planning to achieve income redistribution, and included an analysis of energy policy—based on the popular but false premise that we are "running out of oil"—injected at the behest of Governor Brown. The plan disparaged "unmanaged growth" and called for state controls to increase population density. (In California, over 90 percent of the population is already concentrated on 2.5 percent of the land.) Regional planning agencies were to monitor the policies of local government, adding another layer of regulation.

These open-ended provisions, establishing new bureaucracies with undefined authority, generated substantial opposition entirely unrelated to the issue of roadway pricing. In the last analysis, one can hardly argue with critics who scorned the whole plan as an exercise in social engineering or even with those who simply dismissed it as "socialism." Yet the California Transportation Plan is remembered primarily because of its free-market features, injected by Ross Eckert and his supporters. What's been forgotten is that these provisions were so outweighed by blatantly statist proposals that the plan as a whole would have marked a great leap backward—to tighter controls, higher taxes, and an expanded governmental presence in transit markets!

TIME TO RECONSIDER

Congested roadways are primarily the result of nonprice allocation of space. This system has always been costly and inefficient, but its political advantages have been strong enough to allow it to prevail. The cost function is rapidly shifting, however. Vehicle operating costs alone have more than doubled since the mid-1970s, greatly raising the expense of traffic tie-ups. Moreover, current tax revenues are falling seriously short of what's needed to maintain the existing stock of publicly owned roads. While repair and replacement costs have risen with inflation, fuel tax proceeds are holding level or declining as motorists



The best form of pricing is Automatic Vehicle Identification using electrical induction loops in the road to pick up signals from vehicle-mounted transponders.

cut back on gas consumption. In California, gas tax receipts in 1980-81 were about $30 million below the prior year and $70 million less than in 1978-79. Nationwide, all levels of government collected $38.4 billion in funds earmarked for highways last year, while spending more than $41 billion.

A growing share of the nation's streets, highways, bridges, and overpasses have surpassed their normal use life with no provision made for their replacement. Deferred maintenance raises costs to drivers through abnormal tire and brake wear and reduced fuel efficiency. Damage to steering and suspension systems and the risk of personal injury impose costs not only on motorists but also on political jurisdictions that may be sued for negligence.

In response to this emerging crisis, governments are frantically searching for new sources of funds. Forty states have raised the possibility of increasing their gas taxes this year; some have proposed switching from a flat cents-per-gallon levy to an ad valorem tax, tying revenues to rising fuel prices. The Arizona legislature, faced with a $6 billion shortfall in highway funds over the coming decade, is considering switching from its eight-cent-per-gallon gas tax to a 10 percent retail sales tax on gas and diesel fuel. Florida officials want to extend the four percent sales tax to gasoline—*in addition* to the state's existing eight-cent gas tax.

Given the mood of the US electorate, few of these proposals will be easily enacted. Advocating higher taxes often means buying an express ticket to the political graveyard, as many former legislators are painfully aware. Yet the time for stalling has almost run out; the fiscal crisis is real, and the political architects of our streets and highways must come to grips with their past mistakes and poor planning. This unique confluence of events has lowered the cost to the political establishment of considering pricing to generate badly needed revenue, while the cost to society of maintaining the status quo is rapidly mounting.

Adam Smith first set down the principle that highways, bridges, and canals should be built and maintained by variable-rate tolls, observing that "it seems scarce possible to invent a more equitable way of maintaining such work." Nothing we have learned in the past two centuries casts doubt on this thesis. Our current system of unrestricted access causes roadways to be overused at peak hours, with too much traffic concentrated on central routes. It reduces incentives to use car pools or mass transit, and it provides no rational basis for new investment decisions.

In contrast, appropriate pricing with existing technology can maintain a free flow of traffic throughout metropolitan areas. Incentives are created to use transportation resources only when the benefits of such use exceed the cost—the *real* cost. The existing capital stock is therefore used as efficiently as possible, new investment can be guided by market demand and comparative rates of return, *and* the roadway system can be made self-supporting.

Reluctantly, pricing has recently been accepted as a fiscal necessity in some parts of the economy previously foreclosed to the market. Congress has introduced charges for the use of navigable waterways and has proposed that polluters bear the direct costs of their use of the environment. Such fees may not be optimal in their structure or incidence, but they mark a crucial step in the right direction.

A major test of roadway pricing in the United States is long overdue. The costs of suppressing market solutions to the problems of traffic congestion have become intolerable. The sterile alternatives of the planning bureaucracy would only smother transit markets under deeper layers of controls, regulations, and taxes. The consequences of treating roadway space as a free good are being revealed not just in congestion, pollution, noise, and urban sprawl, but in a deteriorating capital stock requiring billions of dollars of new tax support. It's time to let the market show its stuff. ◧

R. S. Taylor-Radford is a researcher and writer, backed up by a master's degree in urban economics.

MOM AND POP AND UNCLE SAM

The federal government goes to great lengths to support small businesses. But for many firms, a deal with the GSA could be the last they ever make.

By Randy Fitzgerald

LIKE SMALL FISH they are lured unsuspecting into a pool of sharks. Rarely if ever will you read about them, if only because the bureaucracy is conditioned to conceal its mistakes and the press doesn't publish an obituary column for the victims of government. They are small business entrepreneurs who learn the hard way that doing business with federal agencies can be a bad deal.

Why do business with the government in the first place? Because it is one of the biggest purchasers of goods and services there is—imagine a corporate conglomerate the size of the federal government. And under the Small Business Act of 1971, agencies are frequently required to reserve their business for small firms and to make special efforts to involve enterprises owned by women and minorities. It's "help" that some small businesses are learning they'd do better without.

Elizabeth Gobla knows. She was a modestly successful small-business woman when the General Services Administration entered her life a few years back. GSA, general purchasing agent and housekeeper for the federal government, has been raked over the coals again and again for improprieties in carrying out its work. But the case history of Liz Gobla shows that the saddest scandal of all may be GSA's dealings with small contractors.

Gobla's business was a security guard service, operated out of her home near Wilkes-Barre, Pennsylvania. A 38-year-old mother of two teenagers and married to a state trooper, Liz Gobla had taught high school English before going into business for herself. Her firm, United Security, employed 40 to 100 persons, depending on the number of contracts she was able to secure. Her regular clients included two hospitals and the Pocono Downs Race Track.

That was before GSA came into the picture, in December 1978. From among 17 security guard firms listed in the Wilkes-Barre yellow pages, a GSA employee in the Contract Services Branch in Washington selected at random four—one of them Gobla's—to bid on an "emergency" contract to provide guard services for a federal building in Wilkes-Barre. Gobla remembers being surprised and puzzled when the GSA employee, Deborah Young, called on December 21, 1978: "All my business was commercial. I'd never done a government job before. I didn't know why they were calling me. I didn't even know what GSA meant."

She was told that one armed guard was needed round-the-clock for 10 days. Gobla decided that yes, United would be able to provide the service. She phoned in her bid within the hour, and the next afternoon Young called back with the news that United was low bidder and that Gobla should begin providing service at 6:00 P.M. that same day, which she did.

On December 28 Gobla received another call from Deborah Young, this time to bid on a six-month contract for 24-hour guard service at the same location and at another federal building nearby. Gobla would be required to provide armed guards, to pay her employees at least $4.14 an hour plus 21 cents an hour for health benefits, and to provide them with 10 radios. When Gobla asked Young to be more specific about the type of radios required, because United already had six walkie-talkies, she was assured that it didn't matter—GSA just wanted the guards to be able to communicate from one floor to another.

At $5.63 an hour, Gobla once again was low bidder. Based on a verbal agreement with GSA, United began providing security for the two buildings on January 2. She did not receive a written contract from GSA until eight days later, and it was for three months, not the agreed-upon six. Thinking a mistake had been made, Gobla called Young at GSA, who reassured her that it really was a six-month contract, only for technical reasons it had to be divided up into two three-month periods. Renewal would only be a formality, promised Young. But, Gobla was soon to discover, this was just one of

many "mix-ups" in her dealings with GSA.

On the same day she had finally received the written contract in the mail, she met with GSA officials and people from the federal buildings involved for a "preperformance" meeting that is ordinarily held before the contracted-for service is commenced. At this meeting, there was some discussion of "technical specifications" for the job, but after the meeting when she sat down to study the contract and the specifications, she realized that some items of discussion weren't to be found in the paperwork she'd received. She put in another call to Deborah Young, and the papers were sent out.

Gobla received the contract's 40 pages of technical specifications just hours before she was to drive to Washington to submit her signed contract to GSA. On reading them, she realized to her horror that she was obligated to purchase 10 FM radios with special crystals—it would cost her over $13,000—and that United would have to purchase sidearms costing another $1,200, instead of relying on employee-owned weapons. During the contract-signing session, Gobla asked that the contract be extended from six months to a year so that her company could absorb these unanticipated costs. That would be impossible, she was told.

Had she been familiar with federal procurement policy, she would have known that at this point she had grounds for withdrawal from the contract. GSA officials present at the meeting have testified on the witness stand that Gobla was so advised, but they admit to having failed to inform her that she could be compensated for money she had already expended. Gobla, on the other hand, insists that these officials never even told her she could back out.

"I felt that I had a legal obligation to finish. I had already been on the job for two weeks. Even with the added expense of radios and weapons, I figured I could still break even or make a small profit on a six-month contract. I was confident I could get other government contracts. So I thought I would use this six-month contract to learn a little bit more about doing business with the government." She didn't know how much there was to learn.

NOW THERE ENTERS the story of Elizabeth Gobla and GSA the possibility of some shady goings on. Sometime in early January, one of the GSA officials administering her contract, Kevin Kampschroer, acting assistant chief of Support Services, received a phone call from Robert Kulick, an ad-

"THE BUREAUCRACY AND ALL THAT GOES WITH IT," CONCLUDES GOBLA, "MAKES IT IMPOSSIBLE FOR INTELLIGENT PEOPLE TO MAKE REASONABLE DECISIONS."

Liz Gobla, bankrupted by GSA

Photographs by Don Reina

ministrative aide to then-Pennsylvania Rep. Daniel Flood, suggesting that invitations to bid on future security guard contracts in the Wilkes-Barre area be handled through Flood's office "since the Congressman's office would be familiar with businesses in that district."

Richard Lewis, a GSA contract monitor at the time, says he was standing in Kampschroer's office when Flood's aide called. He remembers it as happening during the first week in January, before Gobla was informed that her six-month contract was actually for three months with an option to renew.

"The call caught Kevin by surprise," recalls Lewis, whose oversight role included the United contract. "He was somewhat angry about the political interference. But I detected that he had been intimidated."

Lewis claims that only after this phone call did Kampschroer decide to limit Gobla's contract to three months. "On the forms, if you held them up to the light, you could see where the six had been whited out and a three put in its place," Lewis says. Kampschroer would later testify that he was unaffected by the call from Flood's office. The term of the contract was changed, he said, because "one of the officials who was required to sign [the findings and determinations] before the contract was awarded preferred a three-month period."

No one at GSA seems to have thought it peculiar at the time that a member of Flood's staff would be making such overtures. Yet Flood was at that very time under indictment, accused of influencing nine federal agencies on behalf of his business friends. On January 17 Flood went to trial on these charges. Kulick, Flood's aide, contends that he called Kampschroer at GSA only because a security guard service in Wilkes-Barre had complained about not having had the opportunity to bid on contracts in the area.

Independently of all this, United Security began experiencing difficulties in performing the contract. United's order for the 10 required radios from Motorola went unfulfilled because, according to a Motorola sales manager, the company was obligated to meet the need of federal officials for radio equipment during the nuclear emergency at Three Mile Island near Harrisburg. When Gobla informed GSA officials of the delay, "I was told that was my problem."

Gobla had repeatedly reminded GSA of United's need for prompt payments. Her contract had specified that "payment will be made once each month...for services authorized for the preceding month." But the $31,694 in payments for

EVEN WHEN A GOVERNMENT AGENCY ADMITS ITS MISTAKES, THAT ADMISSION COMES AT THE GOVERNMENT'S CONVENIENCE AND THE VICTIM'S EXPENSE.

January services was not released by GSA until March 21, 1979, causing United severe cash-flow problems. For services United had provided under the 10-day emergency contract in December, Gobla did not receive payment until *May 24.*

Motorola delivered the radios on April 21, but by then it was too late, for Kampschroer had already acted to terminate United by refusing to extend the contract for another three months. GSA contract monitor Jean Hacken, who along with Richard Lewis shared oversight responsibility for the United contract, had reported early in April that United was in violation of Department of Labor (DOL) wage standards that required payment of certain fringe benefits. GSA forwarded this information over Kampschroer's signature to DOL without complying with a requirement that Gobla be confronted with allegations of inadequate service.

A Kampschroer memo dated April 9 notes that he "had originally requested a three month extension" of Gobla's contract but now wanted it extended only until the end of April because of "serious problems with the contract performance." Even if Gobla had been immediately informed of her termination, there would have been a violation of a GSA policy that 30 days' notice be given. In fact, different GSA officials testified that she was advised of the termination only on April 16 or 19. "Incredibly," notes Gobla's former attorney, Daniel Guttman, "although GSA officials were in touch with her at least once by letter, once by phone, and once in a meeting during that interval, no one thought to tell her, as she struggled to perfect her performance of the contract, that the contract was being terminated in two weeks regardless."

Even before refusing to renew United's contract, Kampschroer had told contract monitor Hacken to contact Congressman Flood's office for a list of preferred security guard agencies to bid on service for the two buildings in Wilkes-Barre. Flood assistant Tom Jones provided the names of four firms—one of them, Del-Cap, co-owned by a relative by marriage of Flood aide Kulick, who had, back in January, placed the call to GSA. The last paragraph of Kampschroer's April 9 memo to the Contract Services Branch read: "After the award of the last contract, we received information on guard firms from Congressman Flood's office. The names are attached for your reference."

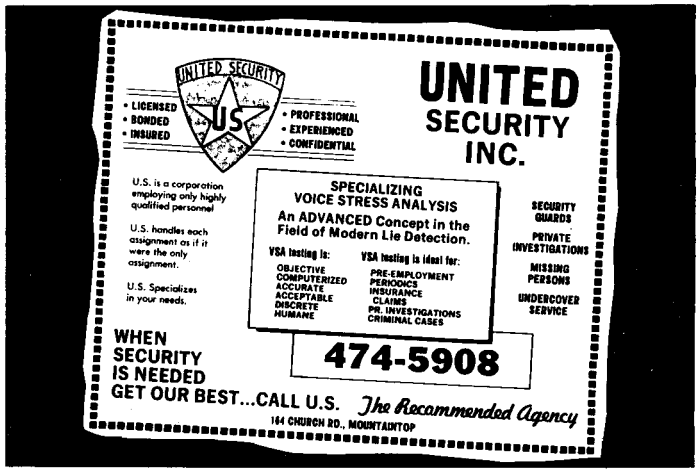
In a bizarre twist, GSA also invited United to bid on the extension of its own contract. "I couldn't figure it out," Gobla shakes her head. "Why would they ask me to bid if they really thought I had been performing poorly?" Del-Cap, which had been underbid by United on the original contract, won this round of bidding and replaced United on the job.

A former employee of United later alleged, in interviews with investigators for GSA's inspector general's office, that Jean Hacken had attempted to recruit him to work for Del-Cap, apparently because that firm was short of qualified personnel. Hacken denies it.

AS FOR LIZ GOBLA, her problems had only begun to surface. A chain reaction of government agency intervention had been set in motion. On May 4 the Department of Labor ordered GSA to withhold $37,000 in payments due United based on the alleged violations of wage standards. Payments from GSA had already been so late in coming that Gobla had delayed payment of certain obligations. Now, she was unable to pay her employees for the last two weeks on the GSA job.

Pennsylvania's Labor Department got into the act, filing criminal charges against Gobla for not paying these two weeks of wages. Alerted to this financial bloodletting, the Internal Revenue Service swooped in to file levies against her three remaining commercial contracts seeking immediate payment of withholding taxes for the first quarter, as well as interest and penalties. Now, United found itself unable to meet the payroll for the commercial hospital accounts, and on May 10 these contracts were lost as well.

"The IRS and Labor Department came at me like vultures," Gobla says bitterly. "I was wiped out overnight. Men were banging at my door wanting their paychecks. Auditors were at my house every



The Veterans Administration Building (left) and Courtright Street Building, where United Security provided guard service under a GSA contract

day. And I was on the verge of a nervous breakdown."

She didn't have money to take GSA to court. She'd already spent over $2,000 on long-distance phone calls attempting to resolve the matter with GSA herself. "They'd just put me on hold and forget about me." After months of searching, she finally found an attorney willing to handle her case on contingency—Daniel Guttman, with the firm of Spiegel and McDiarmid in Washington.

By this time, DOL had filed a complaint against Gobla. Guttman met with DOL attorneys in an attempt to defuse the suit against United. He was told that once DOL filed a complaint, the agency would not settle for anything less than an admission of guilt. Since DOL sought to prevent United from obtaining any future government contracts, Guttman prepared for trial.

During pretrial research, he discovered that in August, nearly three months earlier, DOL had informed GSA that the $37,000 withheld had been estimated too high, and $7,000 should be released to Gobla; GSA had neither informed Gobla of this development nor released the money. Gobla had not even been provided with a written itemization of DOL charges against her.

For two days in November 1979, Guttman and a DOL attorney interrogated witnesses before an administrative law judge. GSA officials conceded contract violations, mismanagement, and having misinformed Gobla about the length of the contract. When Guttman attempted to question them about possible influence by Congressman Flood's staff over the contract, the judge ruled that line of questioning out of order.

During a recess, as Guttman pored over the wage determination sheet that GSA had included in its belated technical specifications for Gobla's contract, he made a startling discovery. The wage standards that Gobla was charged with

violating related to western Pennsylvania, not Wilkes-Barre, in the northeastern portion of the state. Guttman rushed to a phone, called DOL, and got confirmation—not only was Gobla being prosecuted under the wrong wage determination; she had actually paid her men even more than what DOL wage standards for that area required. This revelation completely changed the complexion of the hearing, prompting the judge to rule that DOL had no case against United Security.

Despite this ruling, DOL refused to acknowledge in writing that Gobla had not violated any law, demanding instead that she promise "to obey the law in the future." Gobla resisted any agreement that implied she was guilty of wrongdoing. So a compromise was reached in which Gobla promised to "continue" obeying the law.

On April 16, 1980, Guttman filed a series of claims with GSA for recovery of $10,000 in profits Gobla lost when GSA reneged on promises of a six-month contract, for the $14,228 she had needlessly expended on radios and weapons, and for $18,129 relating to legal and other expenses incurred in trying to settle her GSA problems and defending herself against baseless charges in the DOL suit. GSA's Contract Services Branch, while apologizing for "GSA procedural delays that apparently took place during the period of the contract," denied in its entirety each of the claims, except to refund to United $851.25 for payment deductions GSA could not adequately substantiate.

Responding to inquiries from the GSA inspector general's office, GSA Regional Administrator Walter Kallaur listed a number of "administrative changes" he said the agency had implemented to "prevent a similar situation from occurring in the future." These changes included a training program for all contracting personnel, counseling sessions for GSA personnel on conformance to GSA standards of conduct, new procedures to "insure that all prospective bidders are given accurate and complete information when invited to submit bids," and counseling for the GSA employees involved in the Gobla contract concerning "the administrative errors that occurred."

A special agent with the inspector general's office concluded, based on interviews with Kampschroer and Kulick, that there was no evidence of "improper influence by members of Congressman Flood's staff on the awarding of this contract." Neither could the investigator sustain allegations "that GSA employees had unfairly treated United Security."

Of course, Gobla argues that fairness should be judged on the basis of net effect rather than intent. By that standard, even the GSA must concede that United, in the words of former contract monitor Richard Lewis, "got screwed."

"It's clear that a small businesswoman was lured in like a fly in a flytrap," observes Gobla's attorney, Guttman. "Then they hit her over the head with all these regulations, and stood by and watched her get devoured."

Adds Lewis, who has since left GSA: "Government is supposed to be bending over backwards to help women-owned and minority businesses. But Liz Gobla's case makes that folly. There is an insensitivity to small business. Our mission in support services at GSA was to ensure performance, not to throw contractors out into the street."

Liz Gobla's ordeal is far from over. Soon after GSA rejected her damage claims, Daniel Guttman left Spiegel and McDiarmid and the firm dropped her case. A law student at George Washington University Legal Clinic briefly handled her case before the GSA Board of Appeals, and officials at the Small Business Administration have provided advice and encouragement. But the process may take years.

"I was a victim of all the rotten things that happen in government," Gobla says bitterly. "My business is gone. My business reputation is gone. You are always taught that government exists to support you. But that's garbage. The bureaucracy and all that goes with it makes it impossible for intelligent people to make reasonable decisions. It's as if they took away all the things that I believed in."

THE BANKRUPTING of United Security raises numerous questions about the ability of small businesses to provide goods and services to federal agencies. Even as the evidence mounts that the healthy competition of the marketplace makes contracting far more cost-effective than direct provision of services by government employees, the technical specifications for contracts become more lengthy and complex. Increasingly, only those firms with sufficient legal resources or prior experience with government contracting can afford even to bid.

Bureaucratic procedure in and of itself often assures cash-flow problems for those businesses least able to absorb delays in payment. Often the mere appearance of political interference can have such an intimidating effect on bureaucrats that the shock waves are felt at every level of the decision-making structure. And when federal employees foul up, as they admittedly did with United Security, it is the small or inexperienced firms that suffer the most dire consequences. The United case demonstrates as well that even when a government agency admits its mistakes, that admission comes at the government's convenience and the victim's expense.

Since United's demise, says former GSA official Lewis, at least three other security guard firms in the Washington, D.C., region have been bankrupted by GSA mismanagement and red tape. Similar casualty reports from the other nine GSA regions demonstrate that the mortality rate for contractors is such that if it were a contagious sickness, the Centers for Disease Control would brand GSA a threat to the public health.

"United Security was just one instance of a small business no longer being able to provide guard services to GSA because of the complexity of government specifications and the level of capital needed to perform," says Lewis. "It will be a continuing trend. Only the big contractors can survive."

Bigness is better no matter what the cost has long been the bureaucratic motto in Washington, and GSA ranks right up there with the Pentagon as a primary culprit in making that doctrine both fashionable and profitable. The agency rationale is that bigness usually means stability. One can detect a more pragmatic ulterior motive for condoning and encouraging the growth of tax-fed monopolies: under what is known as the revolving door, many bureaucrats will eventually seek employment from the firms they once regulated or dealt with in the contracting process; only large businesses can afford to pay the salaries that bureaucrats seem to think they deserve.

One of the lessons to be learned from Liz Gobla's experience is that Uncle Sam and the entrepreneur are more often than not working at cross purposes. Where the entrepreneur seeks to compete, providing goods and services at lower cost, government agencies are seeking "stable" sources of supply. The resulting bureaucratic fastidiousness smothers far more than just the spirit of competition. Mixing government and small business is like the old parable of guarding chickens with foxes; one doesn't need a playbill to know which character is going to get eaten. ◻

Randy Fitzgerald is a free-lance writer. This article was sponsored by the Sabre Foundation Journalism Fund. *Copyright © 1982 by the Sabre Foundation.*

What Went Down When Silver Went Up

By R.W. Bradford

IT IS EARLY 1980. The nation's economy is in a recession. Inflation is continuing to rise. And the prices of gold and silver are skyrocketing.

With silver in alloy form widely held by Americans, who are hurting from the recession and squeezed by the chronic inflation, hordes of people are descending upon silver dealers, bringing with them their silver coins, tea services, baby spoons, and anything else with silver in it. They are getting in on the action, selling while the price is high.

But what they find at the silver dealer is that the price they are getting for their coins and scrap is substantially lower than the price of pure, refined silver bullion making the news. At the height of the bull market, with silver having soared to 715 percent above its price at the start of 1979, US silver coins are being bought at discounts of as much as 25 percent below melt value. But then the price of silver crashes, and in the aftermath silver coins come to command a *premium* of more than 70 percent over melt value.

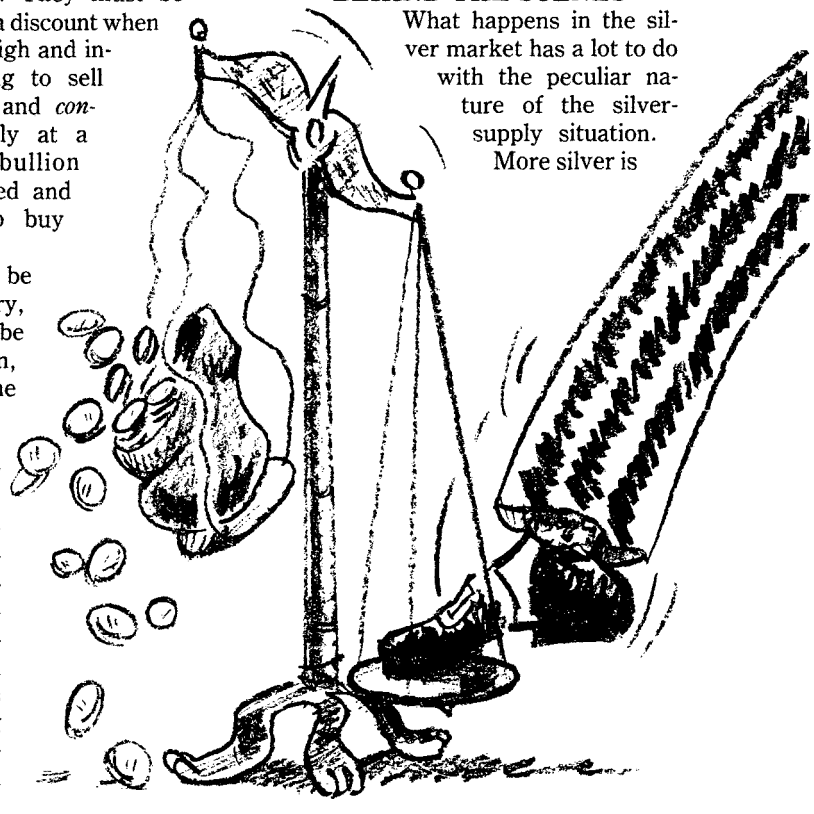
In contrast to the wild gyrations in silver premiums, gold coin markets are remarkably orderly during this tumultuous period. The price of gold bullion has surged to a level 269 percent above its 1979 open, but the major bullion coins—the Austrian 100 Corona, the South African Krugerrand, the Mexican 50 Peso, and the Canadian Maple Leaf—are trading at relatively stable premiums in relation to the price of gold bullion on world markets.

Seeing the stability of the gold market and experiencing the swing in silver alloy prices from discount to premium, some upset investors suspect a plot among silver coin dealers. They must be *conspiring* to buy at a discount when bullion prices are high and investors are seeking to sell their silver coins, and *conspiring* to sell only at a premium when bullion prices have dropped and investors want to buy coins.

If fingers are to be pointed in this story, however, it must be toward Washington, D.C. It was not the corner coin dealers who cleaned up in the market in early 1980 but big-time, well-heeled multinational firms—aided by the commodities futures markets and government intervention that kept dealers from responding quickly to consumers' and small investors' desire to get in on the action. The true story of the silver market in early 1980 provides a case study of how government meddling in markets prevents temporary dislocations from smoothing themselves out.

BEHIND THE SCENES

What happens in the silver market has a lot to do with the peculiar nature of the silver-supply situation. More silver is



consumed each year than is produced. The difference is made up from above-ground supplies, most of which are in the form of alloys. The most common form of silver alloy is coins. Under normal conditions, when supplies of silver decline, the price will rise. Higher prices encourage holders of silver coins to sell them to take a profit. The coins are melted and refined into bullion, which relieves the situation.

Because so many Americans hold silver alloys, it is not surprising to find in this country a well-developed silver-recycling industry. Of course, it takes time and money to refine silver coins into bullion. Normally, brokers pay a price for the coins sufficiently below their melt value to cover the cost of refining and of financing the transaction. And, to protect themselves in case the price of silver bullion falls between the purchase of the coins and the sale of the bullion, the brokers sell equivalent quantities of bullion for future delivery on the commodity exchanges.

But during the boom, silver brokers had only severely limited access to that avenue. In a measure ostensibly designed to protect speculators from major losses in active markets, the commodity exchanges impose daily limits on the price changes of contracts for future delivery of the commodity. No trades are allowed at prices above the upper limit or below the lower limit. (No limits are set for contracts for the current month's delivery). Contrary to their stated purpose, however, these limits offer little protection to the speculator; when their effect is to halt trading, they actually prevent losing speculators from liquidating their positions.

Normally, these limits are sufficiently large that they only rarely come into play. But in extremely active markets—such as the 1980 silver market—they do sometimes completely halt trading in a commodity for future delivery. In this case, with silver moving so rapidly, the limits prevented trading in all but spot month contracts. With the spot price gyrating as much as $5 and $10 per day, futures' trading was locked out day after day. Silver brokers could not use the futures market to hedge against the possibility of silver's price falling while their coins were tied up in refining.

Furthermore, under pressure from the US Treasury, the exchanges imposed new rules requiring that 35 percent—rather than the usual 25 percent—of the value of contracts be deposited before a trade could be made. And, crucial to what was to follow, the Treasury issued a "request" to domestic banks to refuse to lend money against gold and silver. (Requests from governmental authorities of highly regulated businesses like banks take on the character of threats; they are nearly always met.) So dealers could not take bank loans, either, to finance their inventories.

The combination of these actions made it impossible for the silver broker/refiner to do business in the normal fashion. Unless he had access to unlimited funds from private sources, the willingness to take on substantial risk, or the capacity to hedge on foreign markets, he was shut off from normal hedging procedures. Almost no dealer had these resources at his command. In fact, the only ones who did were certain multinational firms that could obtain financing from foreign banks (or domestic banks willing to ignore the Fed's directives out of respect for the firm's size) and could sell on the London futures market, which trades huge-sized contracts.

The few well-financed and well-connected firms soon found that they could make almost unfathomable profits.

CHAIN REACTIONS

So what happened? Silver dealers were swamped with public interest. Retail dealers (those who deal primarily with the public) continued to purchase coin and scrap and attempted to move it through conventional wholesale channels. But with credit cut off and no means to hedge, wholesalers were in trouble. Many found out that their refiners could not handle the quantities they had been offered. Refiners began to drop prices (in relation to melt value), hoping that the declining prices would limit the amount of coin and scrap offered. But the refiners soon were filled up.

By this point, many dealers and small refiners were overextended. Some had all their capital tied up in scrap in the process of being refined and had no cash at all. They simply had to close their doors temporarily. When the refiners stopped buying, the wholesalers had to stop. And when the wholesalers stopped, the retailers had to stop.

Some refiners resorted to writing checks against their receivables. Checks from some small refiners bounced. Wholesalers who had deposited the bounced checks from the refiners could not then stop their own checks from bouncing.

Meanwhile, the public—still anxious to take advantage of the record prices—swamped the dealers. Long lines formed outside their places of business. Fights broke out among those waiting in line. Dealers who managed to find means of reselling silver and who could keep their cash flow going hired additional personnel and extended their hours. Telephone calls to dealers increased to the point that dealers took their phones off the hook. One dealer discovered that his competitors had been closed by lack of operating cash for more than a week; but he had not known it, because every time he tried to call them, their lines had been busy from unanswered incoming calls.

More and more dealers (both at the retail and the wholesale level) had to turn to those few firms sufficiently well financed and connected to find financing and to use the London futures market. These firms, few and far between, realized that they were in an exceptionally good position: they were the only ultimate buyers of any consequence left. Very quickly, then, they discovered that they could buy from dealers at larger and larger discounts below bullion value. They made almost unfathomable profits.

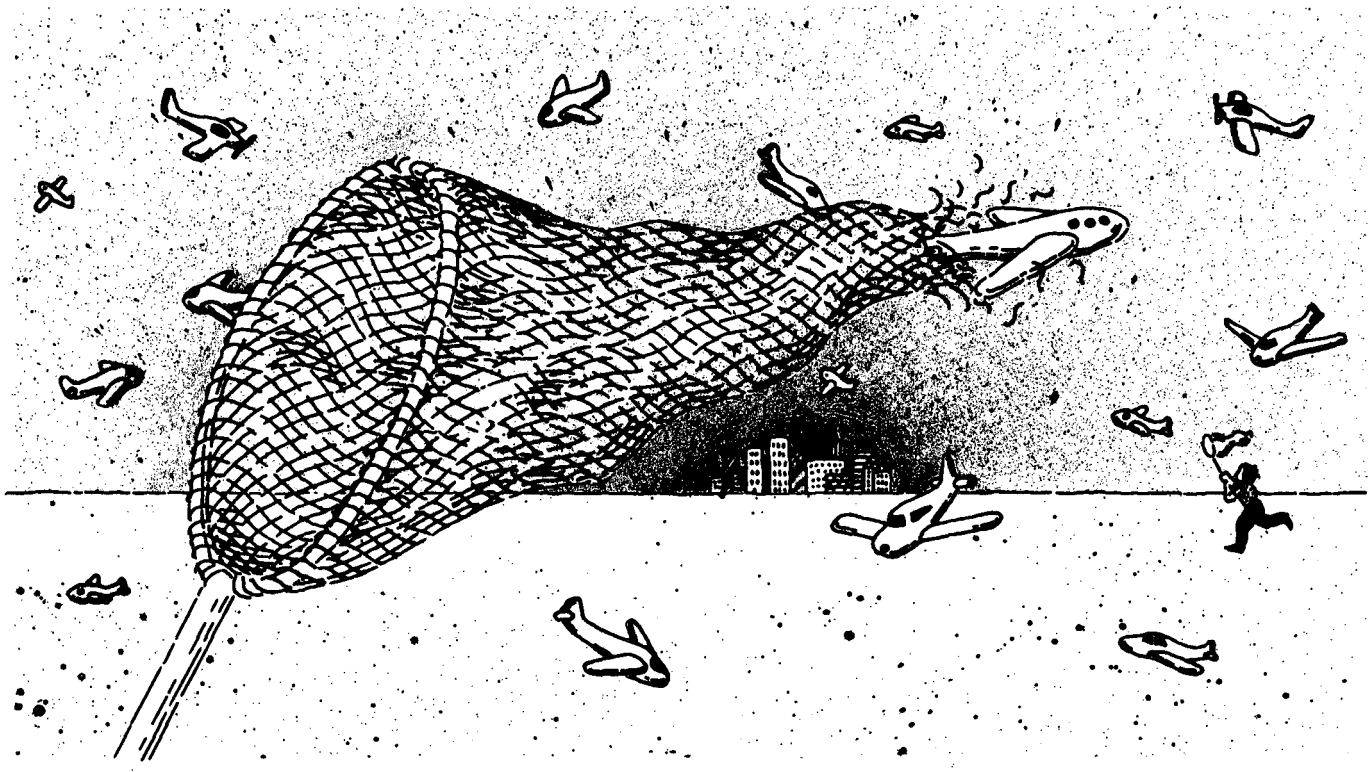
When the squeeze was broken and the price of silver plummeted, dealers no longer faced long lines of customers wanting to sell their silver coins. Instead, they faced lines of people wanting to *purchase* at the new lower prices. Those who had significant amounts of silver coin in inventory quickly sold out. But the lines of eager buyers remained. Dealers began to raise their bids to wholesalers on silver coin, but they could still not buy significant quantities.

Gradually, the higher quotes encouraged some to sell and discouraged some of those seeking to buy, and the market settled down. Within a few weeks premiums had dropped back into the 10-15 percent range.

RAKING IT IN

It appears that a substantial portion of the silver coin that was ultimately sold during the boom to a few major multinational firms was never melted at all. The firms simply sold bullion on the London futures market when they purchased the coin. When the market went bust, they repurchased silver bullion to cover their shorts. They then sold the silver

(Continued on p. 38.)



Spreading Wings Across America

Thanks to airline deregulation, small towns have more air service than ever before.

BY PETER SAMUEL

ELLIOT "BUCKY" BUCKINGham, an engineer (and, via his wife, Marianne, a distant relative of mine), lives on 40 acres of gorgeous rolling countryside in Vermont. Commercial dairying has died out there, but people keep a few animals as a small income supplement or as a hobby, or just to keep the verdant grass under control. The rainfall feeds fresh, bubbling brooks and is sufficient to support magnificent beech and oaks as well as the maples common to the whole northeast United States.

Bucky, as everyone calls him, is one of America's leading designers of gears—not automotive gears, but gears for all other kinds of machines. His father wrote the basic manuals on gear design in the 1920s, and Bucky has taken them over, modernizing the manuals in line with changing metal alloys and needs. He lives just outside Springfield (population 10,000), which has two quite substantial machine and tool factories, but his work as a free-lance gear consultant comes from all over America. Equipped with an Apple II computer, drafting tables, typewriter, and telephone, he works in an office that, overlooking the woods, covers the whole top floor of a second house he built for renting.

Until two years ago the Buckinghams used to have two cars. One of them spent a lot of time 100 miles south of Springfield, in the parking lot of the airport at Hartford, Connecticut, when Bucky was in Chicago or St. Louis or San Diego or wherever new gear designs were needed. Now he has sold his second car.

With airline deregulation, the commuter air service out of Springfield has dramatically improved. There are now one-hour flights four times a day to and from Boston. From Hartford, where he used to drive, Bucky could not fly direct to anywhere west of the Mississippi. From Boston, which was too far to drive to—but which now is an excellent quick commuter flight—Bucky can fly direct to anywhere in the United States.

Bucky's experience seems to be typical. A study by the Civil Aeronautics Board (CAB), "Developments in the Deregulated Airlines Industry," by David Graham and Daniel Kaplan, shows conclusively that service to small communities has greatly improved in the United States with the abandonment of CAB controls over airline routes and charges. Some 132 communities are recorded as having lost regular jet airline service since deregulation, but, says the report, as these "airlines have moved out, the commuter (airlines) have moved in with the small aircraft suited to these markets. On average the commuter airlines are supplying these communities more service with lower subsidy costs than was provided by the certificated airlines." Flight frequency has improved overall. Commuter traffic grew 20 percent in 1978 and 29 percent in 1979—the small planes are definitely accepted by travelers.

Airline routing has changed significantly since the days of license controls over flight routes. The routing that has emerged under free competition, the CAB report notes, has accommodated travelers' needs better than the planning process involved in licensing ever managed to do. Under competition, travelers have fewer connections to

Illustration by Byron Glaser

make and fewer switches between airlines. There are more direct flights from origin to destination.

Airline routing is described using bicycle-wheel imagery: an airport is a hub and the routes are spokes coming into the hub. The CAB divides airports into four categories: large-, medium-, and small-sized hubs and nonhubs (places with only one or two routes connecting them). Prior to deregulation, "nonhubs"—or the smallest communities—had been actually *losing* some service; but that has been reversed. The most recent pattern is for large and small hubs to gain business at the expense of medium hubs. Deregulation in the United States occurred simultaneously with a greater than doubling of fuel prices and coincided first with economic growth, then with recession; so cause and effect are difficult to establish precisely.

But in this report the CAB is insistent that smaller communities have benefited most from deregulation. In an elaborate study that simulated actual trips on a computer, travel convenience between the four different-sized airports before and after deregulation was measured. Taking into account frequency of flights, flight availabilities, flight times, and waiting times for connections, the study revealed that travel convenience between all large hubs and between large and medium hubs remained essentially unchanged. Travel convenience from medium to small hubs declined somewhat. But convenience improved significantly in three categories of hub traffic—medium to medium, large to small, and small to small. Nonhub to nonhub travel improved insignificantly. More small-hub traffic is going direct to big cities, less to intermediate-sized airports.

All this is particularly interesting because, prior to deregulation in the United States, the most frequently voiced fear was that under competition service to small communities would decline. Experience has proved precisely the opposite: small communities have benefited even more than all others! It turns out that the small communities had been the most *ill*-served by bureaucratic planning of routes and absence of competition.

Services are "more integrated" now with competition, the CAB study shows, and this is of most benefit to those in small communities making complex trips. "Fewer trips today require connections than in 1978. And of the trips that require connections, a greater share are made with a single airline than before. . . . smaller communities are getting more direct service to their ultimate destination."

Or, to put it more personally, Bucky's experience is probably being replicated in small settlements all across the United States. ◧

Peter Samuel is the US manager of Australian Consolidated Press. He writes a weekly column and occasional articles for ACP's news magazine, the Bulletin.

Silver Swings

(Continued from p. 36.)

coin, which they had purchased well below melt value, at prices well above melt value.

The whole episode was phenomenally profitable for such firms. Consider the following hypothetical figures, all based on actual market prices. When the spot price of silver bullion was $40, silver coin traded for about $27 per fine ounce. A firm purchases 1,000 bags of silver at a cost of $19,305,000. To eliminate its risk, it sells 715,000 ounces of silver for six-month delivery, at the futures price of $45 per ounce. That sale will yield $32,175,000 when it is consummated.

Now there are three things the price of silver may do during the subsequent six months: it can rise further, stay about the same, or drop. If the price rises further or stays the same, the firm refines the 1,000 bags. The refining would cost about $200,000. The firm then delivers the refined bullion against its futures contract. Under such circumstances, the firm's operating profit on the transaction works out as follows:

Expenses:	
Financing (@ 22%)	$2,123,000
Refining	200,000
Silver coin	19,305,000
Miscellaneous	50,000
TOTAL	$21,678,000
Income:	
Sale of bullion	$32,175,000
Operating profit:	$10,488,000

If, on the other hand, prices drop, the firm simply covers its future position by purchasing bullion for future delivery, and it sells its bags on the cash market. Suppose the firm decided to bail out at $15 per ounce. It would cost approximately $16.75 per ounce to buy bullion for five-month future delivery. There would be no refining costs; financing costs would be considerably less, because the transaction would be completed earlier. The firm's operating profit would run as follows:

Expenses:	
Silver coin	$19,305,000
Financing	707,700
Bullion	11,976,250
Miscellaneous	50,000
TOTAL	$32,038,950
Income:	
Sale of bullion	$32,175,000
Sale of coin	$12,400,000
Operating profit:	$12,536,050

The firm's profits were locked in when they simultaneously purchased the coin on a spot basis and sold the bullion equivalent for future delivery. Their risk was negligible.

The net result of the government's intervention in the commodity and credit markets was mass disruption of the market process. The irony is that the government believed that it was necessary to protect the public, but in fact it created a situation in which the general public was unable to sell coins and scrap except at very low prices in relation to spot markets. Huge multinationals, on the other hand, were able to exploit the situation and make a killing. ◧

R. W. Bradford is a financial consultant, publisher of an economic newsletter, and operator of a precious metals firm.

COMING ATTRACTIONS

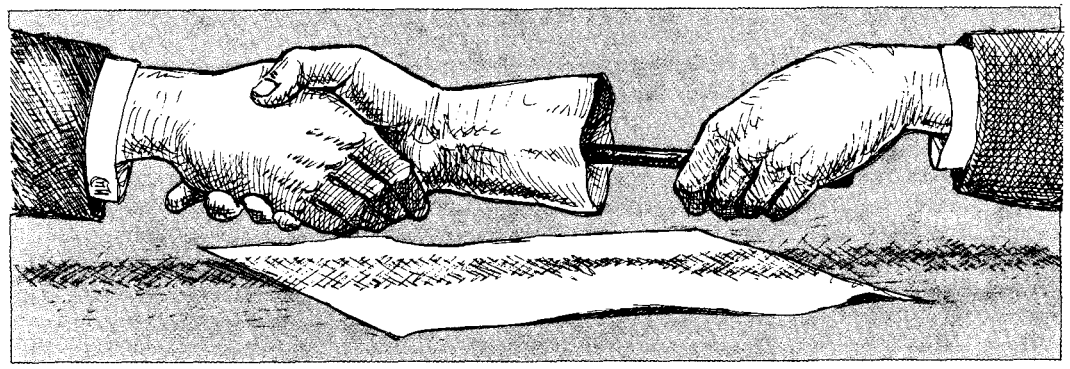
Whither the Demos? Democrats and Republicans alike say that the Democratic Party is in a shambles. Will it redirect itself toward the right or will it be radicalized? An investigative reporter has dug up some clues.

Tilting at Windmills: Could new technologies reverse the near-extinction of wind power systems in the United States? A technology consultant and an economist analyze the prospects and the problem: government.

Chilean Changes: Chile is not much in the news these days. Could it be because it's doing well? A report from the field covers Chile today and the radical charges made there since 1973.

Plus all of REASON's regular features and departments.

DIPLOMATIC



DELUSIONS

A leading Soviet dissident unmasks the hypocrisy of Helsinki

By Petro Grigorenko

ON THE FIRST DAY of August 1975, government leaders of 35 western nations, including the United States and Canada, signed the Final Act of the Conference on Security and Cooperation in Europe in Helsinki. Two days of oratory by the leaders of these countries preceded the signing of what have come to be known as the Helsinki Accords. Leonid Brezhnev was among those participating in this grandiloquence.

Exulting over this impending and important Soviet diplomatic victory, Brezhnev extolled the terms of the Final Act that was about to be submitted for signing: "The parity of interests of all the participating states was painstakingly considered in the formulation of this Act; the results of the lengthy negotiations are such that there are no victors or vanquished, no winners or losers. All have won!" The difficult road from conception to culmination of an all-European conference was now behind us, he added.

I reflected upon this "difficult road" as the sixth anniversary of the signing of the Final Act passed by unobserved, disregarded, and fruitless. I assure you that the concept for this conference was the brainchild of Soviet diplomacy.

For several years this Soviet-born idea floated about the world until it became a reality in July 1973, in the form of the Helsinki Conference on Security and Cooperation in Europe. At that time I was a prisoner of the special psychiatric hospital in Chernyakhivsky. Thus, the information reaching me from the outside world was extremely limited. Since I knew that the USSR had no real desire for a peace treaty and therefore no genuine interest in peace negotiations, it was obvious to me that the Kremlin was searching for an expedient ersatz agreement to befuddle and mislead the Western nations. The Helsinki Conference could be a convenient vehicle to attain that goal.

TRANSPARENT DECEPTION

This obvious deception appeared so transparent that I had no doubt that the West agreed to hold the conference only to expose the Machiavellian conduct of the USSR. The dearth of information provided by the media upon my return home in June 1974 did nothing to sway my conviction.

Like a bolt out of the blue, however, this lull of information was broken by news of the July 30, 1975, meeting of governmental leaders of the 35 countries for the signing of the Final Act at Helsinki. That was, indeed, a stunning victory for Soviet diplomacy: in the guise of the Final Act, the USSR was granted the substitute "peace treaty" it wanted. Europe, Canada, and the United States recognized all Soviet territorial conquests from World War II without receiving any concrete quid pro quo.

For me and my friends in the human rights movement in the Soviet Union, it was obvious that the Soviet government would not fulfill its human rights obligations under the agreement, and without this, there could be no assurance of security for Europe. Remaining the closed society that it is, the USSR was given full reign to violate any of the treaty's provisions, while the West, with its serious regard for international treaties, would scrupulously fulfill the provisions of all articles of the Final Act, thereby assuring full security to the Soviets. This was evident: the Final Act is advantageous only to the USSR. For the West it is dangerous, because it creates in the free world an illusion of security and tends to leave the democratic countries defenseless.

As we foresaw, recent experience has revealed that the Helsinki provisions untied the Soviet Union's hands for its adventures in the non-European theater. It also aided in masking the Soviet arms race and provided it with additional weaponry for weakening the defensive capabilities of the West through unilateral pacifist propaganda aimed at the West.

Fortunately, among us there was one individual who understood that these ac-

Illustration by Matthew Burbott

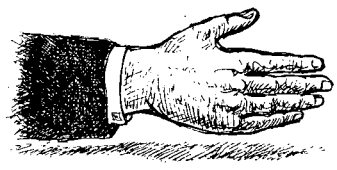
tions were not the only consequences of the signing of the Helsinki Accords. Dr. Yuri Fedorovych Orlov, professor of mathematical physics, realized that the Final Act could become a document of genuine security and cooperation for all the signatories. But to realize this, it was necessary that all governments signing it abide faithfully by its provisions in all domestic and foreign political affairs.

Since only governments are capable of violating international treaties, Orlov reasoned, groups of private citizens should be allowed to monitor and promote the fulfillment of the provisions of the Final Act. He proposed that a group of volunteers initiate such monitoring. As a result, on May 12, 1976, the Moscow Helsinki Group announced the creation of its organization. A heroic struggle in behalf of human rights ensued.

The earliest reports released by the Moscow Helsinki Group revealed shocking violations of human rights in the USSR. These revelations aroused a community of interest in the world and made the group well-known throughout the land. Persons from all parts of the Soviet Union traveled to Moscow conveying information on violations of human rights and seeking advice on how to deal with the problem. Ukrainians, Lithuanians, Georgians, and Armenians came out in support of the Moscow-based enterprise and formed their own "Helsinki" groups.

The Soviet government was perplexed. With its international prestige falling, it could not ignore the problem; something had to be done. A simple and honest solution would have been to fulfill its human rights obligations by honoring the agreement. Instead, it employed covert terrorism as the answer to the problem. To resort openly to terror would no doubt have evoked condemnation within and outside the borders of the Soviet Union. To avoid censure, repression would have to be concealed through the use of democratic and patriotic phrases to counteract the effects of the Helsinki groups—who worked openly and enjoyed wide publicity and whose disclosures could not be disproved.

For a while, the Soviet government hesitated to act, but this abnormal inaction lasted only about nine months. In the meantime, we, the Helsinki groups, went public: we held press conferences with international correspondents, published facts about Soviet violations of human rights in the *Samizdat* (underground publications), and sent related documents to the governments of the signatory states. During those nine months, the Moscow Group sent 18 such documents. The Ukrainian Group, only three months old at the end of this nine-month period, sent out 7 such memorandums. The Lithuanian Group sent 3 documents, and the Georgian Group sent 1. Because it was organized subsequent to the government's period of indecision, the Armenian Group sent none.



For the West, the Helsinki Accords are dangerous, because they create an illusion of security.

The documents revealed very serious violations of human rights in the Soviet Union: persecution and interference in the area of free communication; persecution of religious believers; arrests and convictions based on false accusations; discrimination and illegal persecution of political prisoners who already had completed their prison sentences; government abuse of psychiatry; denial of the right to emigrate; and a host of other violations. These transgressions and others, which violated the provisions of the Third Basket of the Helsinki Accords, were exposed by all groups. The Ukrainian, Lithuanian, and Georgian groups, however, concentrated their attention on national rights.

RECKLESS LAWLESSNESS

In retaliation, the Soviet government discharged group members from employment and terminated their telephone service. Members were interrogated and "rehabilitated" by the secret police and prosecutors issued warnings. Private conversations were bugged, searches were conducted, and all uncensored written and printed works of group members, including private letters and diaries, were confiscated. At times, during these searches, foreign currency, pornographic material, and even firearms were planted. But this was done so crudely and unskillfully that sometimes it became useless as evidence for prosecution. Yet all these methods failed to deter the public monitoring groups from continuing their activities.

The Soviet government then initiated arrests. The first blow fell on the Ukrainian Group. On February 5, 1977, the following were arrested: Oleska Tykhy, a teacher in the Donbas region and a leading member of the group, and Mykola Rudenko, a poet-philosopher from Kiev and the founder of the Ukrainian Helsinki Group. A few days later, Aleksandr Ginzburg, an active member of the Moscow Group, was arrested. Still later, Prof. Yuri Orlov, the head of the Moscow Group, and another active member, Anatoly Shcharansky, also were incarcerated.

As for the Helsinki groups, the road to martyrdom had already begun. At first, the authorities acted with restraint because of the approaching Belgrade Conference (June-July 1977) to follow up on the Helsinki meeting. During this pre-Belgrade period, the government limited its arrests to two members of the Ukrainian group—Myroslav Marynovych and Mykola Matusevych—and the leader of the Georgian Group, Zviad Gamsakhurdia.

It was after the Belgrade Conference that the KGB unleashed its onslaught. Meanwhile, the West, to use Alexander Solzhenitsyn's graphic expression, "surrendered its principles to unprincipled ideology by not expounding upon its self-existent positions." Even as a second European conference on compliance with the Helsinki Final Act commenced on November 11, 1980, in Madrid, the Soviets made massive arrests, the most numerous since the beginning of the Helsinki movement. This reckless attitude of the Soviet government attested to its lawlessness.

The Kremlin openly displayed its contempt for the humanitarian articles of the Helsinki Final Act by attempting to convince the West that the arrests and verdicts against the defenders of human rights were an "internal affair of the USSR." When Ambassador Max Kampelman, head of the US delegation, was delivering his well-presented and moving speech at the Madrid Conference, citing the flagrantly lawless arrest of USSR scientist B. Brailovsky, Soviet delegate Leonid Illichov insolently retorted, "Though we are gathered here to discuss

important problems, the American delegate chooses to talk about a criminal offender."

BRAZEN DIPLOMACY

Such are the bitter fruits of an immoral yielding of principles by the West. Up to the time of the Belgrade Conference, the Soviet Helsinki groups provided their best efforts to brand the Soviet Union as a vicious violator of human rights. Only the American delegate took full advantage in his presentation of all the material provided by the Helsinki Groups; the majority of the other Western delegations assumed a neutral posture "so as not to spoil their relations with the USSR."

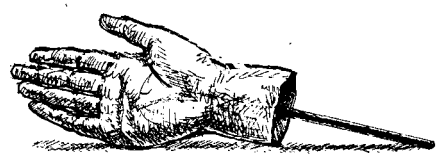
It took three years for the West to realize that, in the defense of human rights, probity and courage are necessary to unmask violations, while unity and firmness are required to put an end to them. These qualities were finally achieved in Madrid. But conditions had changed since Belgrade; and to accomplish what the West desired, in view of the belligerent Soviet attitude, much more perseverance was required of Western diplomats.

At the time of the Belgrade Conference, the Soviet Union continued to accelerate its rearmament program so as to achieve a significant arms superiority over the West. It was also deeply involved in Africa, South America, the Middle East, Indo-China, and the vast ocean areas. In order to mask its aggressive design under these conditions, the Soviet Union had to move very cautiously and therefore could have been forced to make a piecemeal concession. The West, however, failed to take advantage of this possibility and, in effect, surrendered a strategic advantage.

While the Soviet Union is conducting a calculated and brazen diplomacy, the West has chosen quiet and conciliatory diplomatic actions. Becoming increasingly defiant, the Soviet Union has arrived at the point of using its doctrines as obligatory tenets for all peoples. For example, the Soviet Union accuses Western nations of taking advantage of events in Poland in order to discredit the socialist order. The West pleads innocence and replies: "How can you say that? Why, we never thought of performing such an outrage!" I say, "Why not?"

The Soviets intrude into the internal affairs of other countries, commit unpardonable crimes against humanity, and exhibit contempt for the international agreements they have signed, including the human rights provisions of the Final Act. They openly use their agents in the free world to create pressure on other governments and to support international terrorism. Meanwhile, the West maintains silence so as not to compromise the victim-countries of Soviet meddling.

Enough! The West's mistake lies in its failure to exploit Soviet socialism's weaknesses in its diplomacy by not assisting nations to recognize the criminal nature of that system, by not relying on oppositional elements—especially the national movements in the USSR—and by not supporting these movements. Brazen Soviet diplomacy, stumbling upon a firm and stable area of purpose, would find itself in a hopeless situation. A good example was the Madrid Conference. For those familiar with Soviet diplomacy, it was easy to predict how the Soviets would try to deflect the conference from human rights issues. Failing that, they would try to prolong the conference until it became distasteful to all and accomplished nothing.



It was obvious that the Kremlin was searching for an expedient ersatz agreement to befuddle and mislead the Western nations.

Taking the above into account, the Ukrainian Helsinki Group, supported by scores of well-known Soviet human rights defenders living abroad, submitted to the Madrid Conference a draft of a declaration of the "rights of all citizens of signatory nations to establish non-governmental and non-partisan groups to monitor the observance of the Helsinki Accords, with the provisions that criminal and administrative persecution of such activities shall be barred." We proposed to introduce this draft for discussion during the first month of the conference, after the delegates had declared their positions.

The Soviet Union could either accept this declaration or voice its opposition to it. There would be no third alternative so long as the West remained adamant. In the event the Soviets were to accept the declaration, the conference would have achieved its goals, because all countries who signed the Helsinki Accords would then free the imprisoned members of the Helsinki Public Groups, declare a general political amnesty, and pledge to carry on the struggle against human rights violations. Were the Soviets to oppose this declaration, they would proclaim themselves enemies of the Final Act. And if that were to happen, continuation of the Helsinki follow-up conference and of the existence of the Final Act would be senseless. Western society would then free itself of injurious illusions, and the Soviets would lose the fertile ground of the Helsinki Accords for their machinations.

Western diplomacy, however, did not take advantage of this opportunity. We are now witnesses to the second Soviet tactic. Decisive and detailed arguments presented by Western diplomats were countered by Soviet-bloc delegates' mockery and indifference. Without any constructive end in sight, the conference deteriorated from lofty ideals to hollow rhetoric.

It took three years for the West to throw off the diplomacy of silence regarding violations of human rights. How many more years are needed to reach the ultimate goal of uncompromising *defense* of human rights and support for the forces of opposition in the USSR and countries of the Soviet bloc? How many more years are needed to take on the totalitarian ideology—revealing the weaknesses of Soviet socialism, the deceiving and pharisaical Soviet diplomacy—and to establish an active counteroffensive through diplomatic means? ◻

Once a major-general in the Soviet Army, Petro Grigorenko is today the Western representative of the Ukrainian Helsinki Group. Between 1962 and 1977 his dissident activities within the Soviet Union led to several arrests and confinements in prisons and psychiatric hospitals. He lives now in the United States, where he was visiting for medical treatment in 1977 when the Soviet government revoked his citizenship.

When Marva Collins and her private school were featured on CBS-TV's 60 Minutes *in 1979, she struck a responsive chord in America. Disenchanted with their own children's educational experiences and convinced by the experts that adequate education of poor black children requires more money, racial balance, improvements in their home lives, and a battery of special techniques, Americans watched in amazement at what Marva Collins was doing: teaching ghetto kids on Chicago's west side to read—and love—Shakespeare, Plato, Chaucer; to know—and have fun with—congruent angles, ordered pairs, hexagons. And she was doing it in her own home, without new-fangled equipment or methods, on a shoestring.* 60 Minutes *reportedly received more mail in response to this show than to any other in its history.*

When Westside Preparatory School opened in September 1975, Marva Collins was teaching 6 students in a classroom in her home. By the end of the year there were 14 students; by 1979, over 30, in two classrooms. In 1980 she moved the school out of her home, and today Westside Prep has its own building and about 200 students.

If parents cannot afford the $1,500-a-year tuition, it is waived. Through speaking engagements, rental of a movie about the school, and, now, the sale of teaching tapes, Collins has made ends meet.

The daughter of a funeral director in a small town in Alabama, Marva Collins studied in Atlanta and Chicago and taught in Chicago's inner-city public schools for 14 years before she and her husband, Clarence, decided to put their savings into a 24-room house on the city's west side that could be renovated to accommodate a classroom. It was there, in a well-kept elegantly appointed home, that Tibor Machan, a senior editor of REASON, *and Stephen Barone, a school psychologist, interviewed Marva Collins for* REASON.

REASON INTERVIEW

Marva Collins

REASON: One of the reasons we are interested in what you're doing here at Westside Preparatory School is that we cover free-market developments, whether they are what might be called ideologically motivated or are more or less incidental.
COLLINS: I think mine happens to be incidental. Somehow it's gotten to be that I'm one of the conservatives. There was

Photographs by Kevin Horan

an article in the *New York Times* a while back saying that. But I don't know how it gets to be swayed that way, because I really consider myself neutral. I don't get involved in the political ramifications of it all. I just see a need here in this area that has to be met, and I don't see that that's being political.

REASON: How did your project get started?

COLLINS: It basically got started because of my own three children. I was very, very unhappy with even the so-called very elite schools. I took my own children out of $2,300-a-year schools. First of all my elder son, Eric, who is now in college, never had a composition to write at school. The one thing I've always done every day with my children is to watch what they do at school, and I was always a bit unhappy with the academic program. It was a kind of hit and miss. One of the things that even wealthy children need is an education, and I think the problems I saw really have nothing to do with economics. So I was unhappy with what my own children were getting even in the better schools, and then I was seeing so many children here recruited for failure.

REASON: What sort of technical things did you first think of doing to solve the problem?

COLLINS: I didn't do anything different here from what I'd done before, teaching in public school. That's the whole thing. I'm always a little bit astounded by man's common sense. A person cannot all of a sudden become good at what they do just by switching streams. And I really don't see that I'm doing anything different now from what I did down the street right there two doors from my house, except that I did it with the wind at my back. I ignored the curriculum that was given to me there. I was constantly being called into the office because I did not follow the guidelines. Now, I don't have to be accountable to some authority, which is why I don't take federal funds. I don't want anyone's monies unless they're monies without strings attached. It's not that we don't *need* them.

REASON: It is an interesting question, obviously, how one can finance a project like yours.

COLLINS: We've been brainwashed into thinking that it takes more monies than it actually does to educate children. That's been one of the brainwash jobs. Parents often brag about the amount of money spent per child, but I think, perhaps ironically, those great monies that are spent—I call it putting a band-aid on a hemorrhage. The more monies we spend, the less children learn; because the more machines we have there, the more gadgets, the more gimmicks, the less children have to really think—the less they have to use their innate abilities, their curiosity, their brains.

REASON: What do you say to critics of private schools who claim that they "skim off the cream," leaving the more difficult student to be handled by the public schools?

COLLINS: You know, that's one of the things that makes me really—I'm not violent, but I really want to punch them. We just got a lad last week—wouldn't a school in the city take that child. This is his 14th school, and he's 10 years old! We get the children who have been turned away elsewhere. I don't show them to everyone, but if I ever have to prove it I certainly have the records. I don't even read all of the reports. I just skim the first page, because I'm not interested. I guess I'm a rebel that way. I believe the more difficult a child is, the more I want that child. But I won't take a child until the parent brings him to us. So it is just the opposite—we get the ones that no one else will take. We get sawdust, and we have to make boards out of it.

REASON: Is your experience at West Side Prep replicable? Do you think it could be done anywhere?

COLLINS: Well, that's one reason I started a larger school. I was told when I was here in my house on the second floor for five years that only Marva Collins can do what she does. I wanted to prove that that was not true. I have seven fantastic teachers. It's like an addiction, that school.

REASON: Are you considering expanding even further?

COLLINS: No. I turned down a million dollars last year to start 100 "Marva Collins, Inc." schools. I also turned down a Reagan cabinet post and the superintendent of schools post in Los Angeles County. Certainly anyone can grow, but what I have to do first is find the teachers. We have a thousand children or more waiting to come in, but the problem is finding the right staff. Three years from now we would like to have a high school, because our sixth graders are scoring at the freshman college level. I'm very unhappy about what our children get when they leave our schools, so it seems I almost will have to start a high school.

REASON: You say that you don't take government money. Do you think that that's an incidental fact at present about government grants—that they have strings attached—or do you think that this is a feature of the system?

COLLINS: I don't know. And I'm not one of those who say this is *the* way. I'm not that opinionated. I can only say this is *my* way. And the way I am—my son, my middle son, came home from high school one day with a slip for a free lunch, and I said, "What is this?" He says, "Well, the woman says, 'Why do you come in with this money every day? I don't want to be bothered with the changing of the money. Why don't we get you one of those free lunches like everyone else?' " So he comes home with this free lunch slip, and I call the principal and say, "What kind of malarkey is this? Our children have been taught that they don't get anything free in this house." Even the $1,000 scholarship that my son could have gotten from the state of Illinois to go to college, we didn't want. I'd rather get out and work and have my children know that their money comes from their parents and we have to work for it.

REASON: There are, of course, some who will answer you saying that there are people in dire circumstances, who are totally destitute.

COLLINS: But they'll have to do what *they* have to do. I certainly could *use* it, too. We aren't wealthy. I'm not saying that those people shouldn't take that money. I think that those people have to answer to their own consciences.

REASON: Do you get any pressure from state agencies, coming and telling you that you're not following the right kind of program?

COLLINS: They can't really tell us that. The best defense is the mere fact of what our children score. You can easily tell me that, but how can it have any validity when we have sixth graders scoring at a college freshman level? I mean, what does one say to a grammar school where children are scoring 13.1 in sixth grade? So I haven't really had any problems.

REASON: You see, those who may think that this is a good idea on a wider scale wonder how much this runs up against the preconceptions of a very powerful bureaucracy that can stop people in their tracks from trying such ventures.

COLLINS: I have not had those kinds of obstacles, I guess because I was really determined. I said to the mayor of Chicago: "I'm going to do what I do. I can't tell anyone else how to implement what they want. That's something each person must find for themselves." But I was determined. I was going to do what I do.

REASON: To what extent do you involve the parents in your school experience?

COLLINS: People don't realize—how much can parents in a neighborhood like this be involved? We're talking about parents, according to the 1975 census, who have about a third- or fourth-grade education. Ninety percent of these parents survive on some kind of welfare. How much can they be involved? If they could be that involved, there wouldn't be neighborhoods like this. If they could be that involved, there would be some control over their own lives. That's my whole philosophy—change what is going to be through the children. There will be no tomorrow if we don't make today different for the children.

REASON: Does the home atmosphere of some of these children have an impact on their schooling?

COLLINS: It has nothing to do with it. I'm not an "excuse person." Some of these children come from what we call nebulous homes or statistically inferior homes. Yet they do better than my own children who come from a good environment where they have every book they need, where they have the food—my children hide the bacon to keep from eating it! They go to school not eating just like the poor child. What's the difference in a child who has food and doesn't eat it and a child who doesn't have it? This talk about "the atmosphere at home" is a lot of malarkey. We need to really get back to common sense. These children who come from the inferior homes—all they want, all they've ever asked, is for someone to believe in them. Then they try much harder.

REASON: This flies in the face of a good deal of thinking in the educational establishment, doesn't it?

COLLINS: What has really happened is that—you see, I thank God I *live* here—everyone has decided what these people are all about and they don't *live* here; they're several comfortable eons away. I'm afraid you can't tell me what this neighborhood is like when you're in Washington there on Capitol Hill. You just can't set mandates. Have they ever lived in Garfield Park? Have they ever been black? Have they ever been *poor* and black? It's difficult for me to say what it's like to be *you.* We're too busy wriggling down inside of people's skins. No one ever comes over here and asks these people how *they* feel. Everyone just tells me it's very cruel not to let the children go out for recess. No one has ever bothered to realize that those children do not *want* to go home in the afternoons—they sneak down one stairwell and up another. They're due at school at 9:00; they get there at 7:30. Each one tries to see if he can beat the other one there a little earlier so he can get more of our time. I think what we've done is given children a lot of things that they didn't ask for instead of what they do want.

REASON: Do you think that this kind of thinking has a negative impact?

COLLINS: It has done a lot to the black community. It's done a lot to minorities. How can a Harvard or Yale graduate... even when I came here, coming from a completely different environment than this—my father was a very successful businessman and we had luxury cars, money, a nice home—I have learned more about living, living here, than I ever knew and would *not* know if I did not live here. It's so difficult to set mandates for these people unless you really live here.

REASON: There's a book, *Wealth and Poverty,* by George Gilder, that's been quite talked about recently. He had done some studies—not studies of the technical variety, but for a time he actually lived in Albany in a black community, and his view is somewhat shared by you. I don't know whether you

"I'm not one of those who say this is the *way. I can only say this is* my *way."*

"We just got a lad last week—wouldn't a school in the city take that child."

"If what I'm doing is wrong, then I am certainly completely insane, because I'm knocking my behind off over here."

are familiar with Gilder.

COLLINS: Yes, I'm familiar with him.

REASON: He basically says that the attempt to help poor people by getting them used to a kind of regular state income is the greatest damage that you can do to them because they no longer have any incentive to improve themselves.

COLLINS: Neither do I! If I know that you're going to bring food to my door every day, then what's the need? If you know that you have a fixed income coming in, what's the need of ever reaching?

REASON: There is the argument, though, that because at a certain time members of the black community or their ancestors were treated in a massively unjust way, these measures are somehow necessary for the time being in order to upgrade them, put them on a level from which they can then start on their own. Do you think that that's just a misconception?

COLLINS: I think it's a misconception. Everyone who comes in is just amazed that our children do not have the animosity, the hatred, because these children are into it. You know, once you learn to like yourself, then you don't see this black-white bit. I still say that a good basic education is the only thing. I feel guilty sometimes because I don't think Jesus Christ could get any more accolades than I do when I walk through that classroom, even from the children I do not teach. They know that I love them, but I am forever telling them, "Get into that seat so you can have choices in this world." That's the thing. Education is the thing. This black-white bit—I don't deal with people that way. I deal with it as if you are another individual. If you do something that perturbs me or aggravates me, I do not think you've done it because I'm black.

REASON: You must get a little flak from some members of the black community.

COLLINS: Well, it doesn't really matter, because it's my energy and it's my effort. If what I'm doing is wrong, then I am certainly completely insane, because I am knocking my behind off over here with my own money, my own efforts, my own energies—for what I believe in.

REASON: What has been the impact of the *60 Minutes* exposure?

COLLINS: Everyone seemed to have thought that we were born on *Sixty Minutes,* but before that we were on *Good Morning America* and the Martin Dean show, the Donahue show. We'd been in feature articles in Germany; we had been in newspapers all across the country. *60 Minutes* seems to have had the most impact, but it's kind of frosting on the cake of what we really do here, because they can only do so much. Everyone was so amazed by children reciting a list of names of books, but that can be very pedantic. And very few news stories or TV shows have indicated the *understanding* these children have of what they read. It's no longer the street lingo, it's no longer the English as a second language—that's something I can't believe these days, teaching English as a second language. If our children get into an argument and one is too wordy, they'll say, "Speak the speech trippingly on the tongue" from Hamlet. Or the other day there were two little boys in the bathroom, and one was acting up; and when another nine-year-old went in, he said, "Out out, little spots, you should have taken care of this duty at home"—there would have been a time for such foolishness. It's constantly paraphrasing now. It's another way of expressing themselves.

REASON: They don't look upon their experience as a chore, then.

COLLINS: Oh no, it gets to be really comical. And the one thing about the poor child is—I don't care what anyone says—the parents here *respect education.* You let a child graduate from high school here, parents will have a party all night long. They don't always know how to get it, but there is nothing that's respected more in this neighborhood than an education. This is one thing that the experts in America have never witnessed. And unfortunately those people who try to help are throwing the monies the wrong way.

REASON: Why is it that so many children in the public schools *do* look on education as a chore? Do you think it could be that it's the public system itself, that having it available free turns people off from valuing education, from enjoying it?

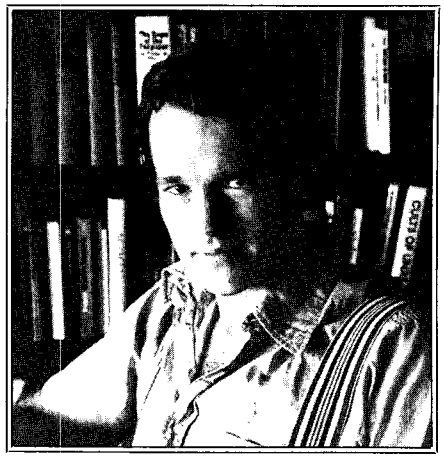
COLLINS: Well, you see, what has happened too is that children have to learn the look-see method. I'll tell you what really happens the first three years of public schools. The child goes to kindergarten—well, I can only talk about where I was; I have not been in all the public schools. The child goes to kindergarten and he watches Sesame Street; he's given a peanutbutter sandwich and treats and juice, then he goes out for recess. And it's twelve o'clock, time to go home. That's kindergarten. Then he goes to first grade, where he plays again another year. No reading skills at all. Then he goes to second grade and somehow he fools around again another year with the look-say method or books that do not challenge him, and he looks at the whole word and guesses it. By the time he's in third grade he's supposed to be an independent reader. Well, he never learned to read in kindergarten, first, and second, so in third grade he begins to be placed in the EMH or the learning-disabled rooms. And the child has learned to be a problem by then, because he's had three years of school, so he knows how to create havoc. But the child never really had an opportunity.

Our children learn the phonetic method, which is why they're very good spellers, I suppose. Because rather than ABC or just saying a word, they'll have to go *a as in apple* and all the other *a*'s there are in the English language. They learn that when they're four. Children all over America can tell you that *a, e, i, o, u,* and sometimes *y* are vowels. But you ask them about that "sometimes *y*," and they can't tell you. Just do an experiment with them. You can't find me 20 children in Chicago, I don't care which section you go in—you can be on Michigan Avenue or here—and they won't be able to tell you that *y* is a vowel when it's the final syllable in a word, as in *Nancy* and *icy.* And no one bothers to teach the rules anymore—"*i* before *e* except after *c.*" People have to live by rules in the world. Why do we pretend in school that they don't? That's how I try to think of education—a school is a miniature society where children learn to function in a real world. And the pretending, you know it's even on the standardized test. There's a little section that says, "This is a game to see how much you learn." Well I say to them, "No, it's *not* a game. This is a *test,* and it often determines whether you sit on the sidelines and catch the crumbs or whether you march in the mainstream." One night my son was downstairs studying, and he had been up so late all that week, and my husband said, "I feel so sorry for him." I said, "Look, if he's going to become a surgeon"—he is studying to be a doctor—"he's going to have his hard times. I feel sorry for him too, but if he lives in this world he's going to have more hard times. He's going to stay up some more nights." I think we can't shield them from the hard times, even though we'd like to. I say to the children that I teach and to my own—I can't test the ground for you and tell you that's a safe step there.

REASON: That seems like a good motto to end with. Listen—thank you very much. ◻

Braking the Budget

viewpoint



James Dale Davidson

Deficits matter. That is one of the unmistakable lessons of the past year. Market-makers, who put their own money and livelihoods on the line, have indicated that the prospect of continuing deficits at high levels is a major factor in the persistence of high interest rates and the decline in stock and bond prices. An obvious conclusion is that interest rates might fall, with an accompanying improvement in investment and economic growth, if markets could be convinced that future federal deficits could be eliminated.

This is a conclusion that has been forced upon the president—thus his plan for additional budget cuts. These cuts are needed as part of any incremental movement toward a balanced budget. What remains to be seen is whether they will be convincing. My guess is that they won't be, which is why a balanced budget amendment to the Constitution is needed.

An amendment would be a more convincing step toward eliminating future deficits than would any amount of spending curtailment in the coming fiscal year. The Constitution is the fundamental law of the land. It endures from one election to the next; its mandates are not easily set aside. The Constitution is credible. It establishes rules that bind the next administration and the next Congress as well as those currently in office.

Because a constitutional amendment mandating a balanced budget would be a more credible signal that the federal government would maintain spending discipline, it would also be less politically costly. It is no coincidence that politicians tend to drift into noble rhetoric about making "hard choices" when the task at hand involves spending cuts. They know instinctively what most economists and opinion leaders have been reluctant to face: that the power to "control spending" involves little real "control." It is a power to accelerate but not to stop. The federal budget is like an 18-wheel truck with a feather-touch accelerator and no brake. Those at the wheel have very limited choices. They can swerve to one side to avoid hitting one group, but then they flatten another. They have no real power to stop the thing.

No analogy can be pushed too far, but there's a basic truth in this one. Not just American politicians, but all politicians, have failed in the effort to curtail runaway spending through ordinary political processes. The record on the point is clear.

Even some Republican leaders are indicating their belief that the economic recovery program, as now constituted, will fail. As successful politicians, they have their ears cocked. They have heard the gathering complaints of their constituents over high interest rates and budget cuts. What these senators and congressmen know is that individual voters tend to vote against incumbents when their incomes fall, no matter what the reason. Economic reforms that take three years to work may bear fruit too late to influence the next election. But an economic recovery predicated upon private investment is necessarily one that will take some time in the making.

In fact, high interest rates have reduced incentives to invest. Other things being equal, a business that yields a revenue of $100,000 with 20 percent interest rates is worth just half what it would be at interest rates of 10 percent. In a sense, high interest rates amount to a levy on capital. This isn't merely a matter of theory. Investors lost almost $200 billion in the decline in value of publicly traded companies between August and October.

The very real losses suffered by investors as a consequence of high interest rates show that budget deficits do matter in the market, even if they don't matter to some economists, including those in the councils of the current administration. Those who argue that the deficits are not inflationary are only right so long as the Federal Reserve doesn't "monetize" the debt, printing money to cover its overdue bills. If it doesn't, its only alternative is to borrow. Unhappily, the American economy does not generate enough savings to meet the resulting demands for credit—except at high interest rates.

Those rates are higher than they might otherwise be because there is a widespread expectation that future federal deficits will be so great that they cannot, politically, be accommodated with a tight money policy. Most people fully expect that before long the printing presses will be turned back on, sending the economy swirling along on the inflationary spiral at a still higher level.

There is a way out of this unhappy dilemma—enactment of a constitutional amendment outlawing deficit spending. Quick congressional action to enact a balanced budget amendment would not necessarily require that the deficit be eliminated any earlier than is now planned—by 1984. Allowing for a phase-in provision and the several years it would take to have the amendment ratified, the first year without deficits might be 1985 or even later. But the beneficial effects would be felt immediately.

Capital markets are efficient. They would no doubt act immediately to discount the prospect of lower inflation and reduced federal borrowing requirements. That is to say, investors would move to lock in high yields on government bonds. Interest rates would fall. This would lower the costs for private borrowers, at the same time increasing incentives to invest.

It would also make future budgets easier to balance by reducing the carrying charges on the national debt. Even a one-percent decline in average interest rates implies a savings of $10 billion annually on a debt of $1 trillion.

In short, deficits do matter. By eliminating them in the only way they can credibly be eliminated, through constitutional action, we can pave the way for true monetary reform and an end to inflation, which must be part of any lasting American economic renaissance.

Jim Davidson is founder and chairman of the National Taxpayers Union and author of The Squeeze.

taxes

Down-to-the-Wire Tax Tips

By Timothy Condon

Okay, this is it: the last month; last week; last day, hour, and minute. You've got until midnight, December 31, to make any last-second tax dodges. And since most of us will be out—ahem, in more ways than one—on New Year's Eve, you might take a few minutes to mull over your upcoming tax situation *right now.*

The first thing to point out—as any tax specialist will be glad to give a harangue about—is that good year-end tax planning starts sometime in July or August. Those who refuse to pay attention to their tax situation during the year are condemned to handing over big chunks of their money, willy-nilly, to the people in Washington, D.C., who do so much for you every day, in every way. With that in mind, then, here are some truly last-*second* tax ploys that may put some extra cash in your pockets, come April.

The first thing you must do is sit right down and take a good, long look at your present tax situation. Now, this isn't as hard as you might think. Nobody's getting any other work done at this time of year anyway. You might as well take out last year's tax return and look it over to see where your previous deductions came from. Those areas are prime prospecting territory for *this* year.

Find out how much money you've made this year. You can do this by checking your last paycheck stub if there's a spot that shows "year-to-date" totals. Otherwise, you can often find out by just asking the bookkeeping office at work. The figure you get will give you an idea about where you are compared to last year. Are you making about the same amount of money? Or did you come into big bucks this year? Or has your income fallen off? Now think about how you expect to look *next* year: are you going to make significantly *more* in 1982? The same? Less?

Next, you get together all your receipts and records and so forth pertaining to 1981. Separate them into piles corresponding to the deductible areas on last year's tax return. If you've got a significantly higher income in 1981, you might have more deductions because of higher expenses. Is that the case? If it is, could you use still *more* deductions? If your income went *down* in 1981, how are the deductions looking? If they're at the same level as the previous year, you might not want any more deductions for your 1981 return.

Your basic strategy is this: if your income is the same or higher than it was last year and you don't expect it to go up much more in 1982, grab for all the deductions you can. If your income is temporarily *lower* this year, hold off on the deductions. You've probably got enough already, and you'll want to save any extras for your higher income *next* year. Give more weight to your taxes this year, because the overall rates are going down by 10 percent next year. But keep in mind that the reduction isn't going to help much if you expect your income to go *up* in 1982 by 20 or 30 percent.

How do you get "more" deductions at this late date? Just go hog-wild between now and December 31, paying all the deductible expenses you can think of. In the case of business expenses, if you work for yourself, have a ball: advertising fees, office supplies, printing, copying, furniture, magazine subscriptions, inventory costs, bonuses, insurance, etc., etc. It's all deductible. You might even want to prepay some expenses you know are coming up.

If you work for someone else, but still have business expenses that your employer doesn't pay for, you'll have to be more careful. These expenses go on the Schedule A (itemized deductions) in the "miscellaneous" section, and you first have to determine whether you're over the "zero bracket amount" (which is really the old "standard deduction") for your filing status. If the combined total of *all* the itemized deductions exceeds the zero bracket amount, then every extra deduction you come up with is gravy.

The six deductible areas are medical/dental; state and local taxes; interest paid; charitable/educational donations; casualty and theft losses (it's hard to "give" to this one); and miscellaneous/employee business expenses. The zero bracket amounts are $2,300 if you're single or filing as head-of-household, $3,400 if you're married and filing jointly, and $1,700 if you're married but filing separately. If you find that you're not near to going over your amount, you may want to hold off until next year when you've got a better chance of surmounting those levels.

On the flip side of the tax-cutting token, you'll find that you can accomplish the same thing as gaining more deductions by putting off income. You did a job for someone and they owe you? You don't need any more income this year? Don't push it. Let 'em pay you in early January. Someone owes you payments, including taxable interest? Let it slide for a couple of weeks. Mañana.

Now, how about the opposite situation: your income is actually pretty low this year, and it's really going to jump in 1982. Most other things being equal (don't forget the 10 percent drop in tax rates next year), you might want to either cram more income into 1981 or put off taking any more deductions until 1982. Both accomplish the same thing: your 1982 taxes will be less. You do this by *not* spending money on deductible stuff at the end of 1981. Put it off until January. People owe you money? Money that will be taxed as income? Get on it: call 'em up and *insist* that you be paid before December 31.

Then there are the other small things you should pay attention to. If you've got dependents who make money themselves (kids in college, high schoolers with part-time jobs), make sure you've provided *over* 50 percent of their support in 1981. A small difference here can spoil your April 15th. Also take a look at your expenditures in such tax-saving areas as child care expenses, energy-saving insulation and devices, moving expenses, and political campaign contributions. There may be money to be saved in any of these areas.

If you can get all this together in the next two weeks, who knows? Maybe you can save yourself money that would otherwise go to government and bureaucracy. In which case...Happy Holidays.

Timothy Condon is an attorney and a tax specialist practicing in Florida.

QUOTABLE QUOTE

Experience should teach us to be most on our guard to protect liberty when the government's purposes are beneficent. Men born to freedom are naturally alert to repel invasion of their liberty by evil-minded rulers. The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding.

—Justice Louis Brandeis

health & welfare

Aging and Health: More Information

By Durk Pearson and Sandy Shaw

To continue from last month our listing of good sources of information about aging and how to improve your health:

Supernutrition, by Richard Passwater (New York: B.J. Publishing, 1975, $2.50 paper). This book is seven years old and, consequently, somewhat out of date. However, it was a bit ahead of its time, so there is much of value remaining. For example, it contains cogent explanations for the layman of what free radicals are and how they cause much of the damage that produces aging, cardiovascular disease, and cancer, to name a few. This alone is worth the price of the book. There is also an informative discussion of why cholesterol-reducing diets usually do little, if any, good in preventing heart attacks. There are recommended nutrient regimens—somewhat conservative, by our standards—and uses for individual nutrients are generally well explained. One complaint we have is the rather dry, dull style in which the book is written. Two pages of references are included.

Vitamin B6: The Doctor's Report, by John M. Ellis, M.D., and James Presley (New York: Harper & Row, 1973; out of print, but worth looking for in the used book market). This is a book about clinical results obtained by a doctor with the use of relatively high doses of vitamin B-6 for symptoms of arthritis. The book focuses on practical use of the vitamin rather than explanations of mechanisms. (Vitamin B-6 is an important antioxidant nutrient. A deficiency of B-6 in persons consuming a diet high in meat, for example, can result in the development of atherosclerosis. That is because the methionine in the meat is converted to a substance called homocysteine, which is an oxidant that can promote the damage that causes atherosclerosis. Normally, homocysteine is converted to cystathione, which is an antioxidant. However, the latter conversion requires plenty of vitamin B-6.) There are nine pages of references.

Vitamin E for Ailing and Healthy Hearts, by Wilfrid E. Shute, M.D. (New York: B.J. Publishing, 1972, $1.95 paper). Anyone who plans to use doses of vitamin E of 200 IU or more per day, or who plans to use vitamin E and has a damaged (particularly rheumatic) heart, should read this book. The famous Shute Clinic in Canada has treated about 40,000 patients with vitamin E, and much of the experience is reported here. The book explains how to use the vitamin and the side effects that may be encountered. For example, when vitamin E is first used there may be a transitory blood pressure elevation. That could be important if a person taking vitamin E has high blood pressure. Also, it is possible to get differential benefits in a damaged heart, so that some parts become stronger sooner than other parts, resulting in a strain on the weaker areas. It's all here in this book. There are five pages of references. Highly recommended.

The Healing Factor, by Irwin Stone (New York: Grosset & Dunlap, 1972, $2.95 paper). This is an excellent book on vitamin C and its many uses. The bibliography (53 pages!) is a good one, with many references to the primary scientific literature. Stone even explains in the beginning how man and all other primates came to be dependent on the environment for their vitamin C (through the loss of an enzyme necessary to manufacture C in our bodies). Dr. Stone, who first interested Linus Pauling in vitamin C, explains how to use vitamin C for herpes and other viral infections, bacterial infections, cancer, heart attacks and strokes, aging, arthritis and rheumatism, allergies, ulcers, diabetes, hypoglycemia, stress, pollution, poisons, wounds, pregnancy, and even mental illnesses. Vitamin C, for example, has been found of value in the treatment of schizophrenia. And vitamin C is required in the brain's manufacture of many neurotransmitters (substances used by brain cells to communicate with each other). Highly recommended.

Nutrition against Disease, by Roger J. Williams (New York: Bantam Books, 1973, $2.25 paper). This is an excellent introduction to the field of nutrition, with many references to original scientific papers, written by the scientist who first identified, isolated, and synthesized pantothenic acid, vitamin B-5. He also did pioneer work on folic acid and gave it its name. There are 31 pages of references. Highly recommended.

Vitamins and You, by Robert J. Benowicz (New York: Grosset & Dunlap, 1979, $5.95 paper). Robert J. Benowicz used to work for the Food and Drug Administration. He believed the agency's claim that most people can get all the nutrition they require with a knife and fork (in their diet). Benowicz decided to write a book exposing the use of vitamin supplements as a hoax. Being a real scientist, however, he did some literature searching on the subject and found, to his surprise, that the scientific literature didn't support the notion that all nutritional needs can be obtained from even a good diet. When Benowicz tried to bring these facts to the attention of his superiors, he was rebuffed. He quit the agency after that, calling it a "Kafkaesque organization." This book is a good survey of vitamins, as found in the diet and in supplementation. It has one and a half pages of references.

Regulating New Drugs, edited by Richard L. Landau (Chicago: University of Chicago Center for Policy Study, 1973, $5.50 paper). This economic study provides an excellent analysis of the effects of regulations on drug innovation and production in this country. Of particular interest is Dr. Sam Peltzman's section, "The Benefits and Costs of New Drug Regulation." He found that, considering costs and benefits, consumers were losing at least $250,000,000 per year (in late 1960s dollars) as a result of drug regulations requiring proof of efficacy (the 1962 Kefauver Amendments) using a set of assumptions that are incredibly charitable to the FDA. Dr. Peltzman has shown that these amendments, which have increased the costs of and delayed drug approval, have provided *no* significant increase in either safety or efficacy. He has also demonstrated that the health costs of a *three-month* delay in introducing a new drug exceed the health costs of a West German thalidomide maxi-disaster once each decade! This book is a real eye opener.

Durk Pearson and Sandy Shaw are consulting scientists, authors, and TV personalities.

A list of scientific literature on this topic is available through REASON. Send a stamped, self-addressed envelope and ask for H&W references, January.

We invite questions of general interest from our readers. Send your query along to REASON Health & Welfare, Box 40105, Santa Barbara, CA 93103.

(A limited number of reader questions can be answered in print; personal replies cannot be made.)

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spotlight

Canadian Walker Makes Market Talk

By Patrick Cox

Canada is just to the north of the continental United States; its government, just to the left. In Canada, as in the United States, government is the occupation of a minority who enjoy the profession and does not necessarily reflect the views of the citizenry. The federal and provincial governments of Canada have managed to gain control over practically every aspect of Canadians' lives. Agriculture, medical care, housing, and banking are even more under the bureaucratic thumb in the land of the maple leaf than next door in the USA. And the government is aggressively encouraging nationalism, moving to rid Canada of foreign business interests as well as American television shows. But Dr. Michael Walker thinks that the Canadian people are beginning to assert their own individual sovereignties.

Michael Walker was born in Newfoundland to a man who went to work in the coal mines of Nova Scotia when he was orphaned at the age of 14. Walker says that his father decided after five years in the mines that "if they had to blindfold horses to get them into the mines, they were no place for him."

Young Michael went on to college, and it was in econometrics and monetary theory that he excelled. He earned his doctorate at the University of Western Ontario, where he worked on the cutting edge of econometric research. (For our readers who are not familiar with econometrics, it is a mathematical branch of economics using high-powered statistical methods to measure and analyze economic relationships.)

Walker was caught up in the general enthusiasm of the period. "It was believed," he says in retrospect, "that with a mathematical model of the economy, government could fine tune all the social problems out." Armed with his considerable econometric skills, he went to work for the federal Bank of Canada and later as a consultant to the Policy Branch of the federal Department of Finance.

Somewhere along the line, though, Walker began to lose faith in the very idea of mathematically controlling the multitudes of individuals who make up "the economy." He rejected his "mechanistic" views of the economy, instead coming to see it as an "organic" system. He was ready when a former classmate, Csaba Hajdu, approached him in 1974 about the possibility of setting up an organization meant to counter the liberal economic ideas that have held sway in Canada since the election of the Trudeau government in 1968.

Michael Walker

Along with economists Sally Pipes and John Raybould, Walker formed the Fraser Institute in 1975, with Walker as director. A group of businessmen put up the initial funds for the institute, and he managed to convince them that intellectual husbandry yields greater benefit than direct political involvement. The decision was made to locate the think-tank in Vancouver, British Columbia—far away from Ottawa, the Canadian version of Washington, D.C. As the institute has grown in prestige and influence, the Canadian government has several times offered to put the organization on the dole, but Walker has always refused tax monies because they are not strings-free.

As Walker and the group mapped out a strategy for attacking Canadian statism, they were blessed by a visit from Antony Fisher, England's foremost free-market spokesman and himself the founder of London's Institute of Economic Affairs. Having overcome obstacles similar to those facing the fledgling Fraser Institute, Fisher was able to offer expert guidance. "He knew more about our problems then we did," Walker says. Fisher also introduced many of his own large Canadian financial contributors to the Fraser Institute. Today, the institute is operating on about $600,000 a year and has registered as a nonprofit foundation in the United States.

As the free-market philosophy has gained in international respectability, Walker has come to represent it in Canada. He spends most of his time now giving speeches and his opinion to those who ask for it and has come to be called the "Milton Friedman of Canada." He does not sound exactly like the Chicago monetarist, though. He gives away his Canadian roots when he talks about the joys of getting his hands greasy and working on his 280 "Zed" or getting government "aoot" of the marketplace.

Much of the success of the Fraser Institute has come "abaoot" through its 25 published books. It has pulled off a minor miracle with six Canadian bestsellers, all serious economic works. Most notable is the popular *How Much Tax Do You Really Pay?* Over 120 authors have been published under the Fraser label, including Friedrich Hayek, Milton Friedman, Martin Feldstein, Thomas Sowell, George Stigler, Walter Williams, and Richard Lipsey. "Virtually every Canadian university is using some of our books," Walker says, "and many are using all of them." In the United States, too, *Oil in the Seventies,* for example, and *The Illusion of Wage and Price Controls* are in use. The institute also conducts workshops and seminars for academic, business, and government people. The media have taken notice; in the past year, 40,000-plus column inches and hundreds of hours of radio and television have been devoted to the think tank and its work.

Walker says that he is not interested "in fiddling with economic policy" in an attempt to change society a little bit at a time. "I'd still be in government if I was. I'm interested in the 'Big Change.' My view is that we have to do an end run around the whole process." Citing the growth in attention to and support for the free-market position, Walker is confident that the Big Change will happen in the not-too-distant future in North Americans. North Americans, he says, "have been mugged by reality. Reality has simply overtaken them," and they are no longer swallowing the liberal "solutions." "It's not so much a philosophical revolution as a utilitarian revolution. People are just learning what works."

Patrick Cox is a free-lance writer.

arts & letters

movies

- **Gallipoli**
- **Prince of the City**
- **True Confessions**

Reviewed by John Hospers

Australian runner reaches safety in Gallipoli

• The Battle of Gallipoli is remembered as one of the disastrous campaigns of World War I. British forces attacked the Turkish peninsula of Gallipoli in order to capture the Dardanelles, and Australian troops were to create a diversion by attacking the Gallipoli heights from the shore. In this futile and uncoordinated attempt, many hundreds of Australians were slaughtered by well-armed Turkish troops ensconced in trenches on the heights. The campaign was a blunder as much in its conception (Churchill's) as in its execution (General Ian Hamilton), and the victims were the naively patriotic Australian volunteers who were led into this trap.

This incident is portrayed in detail in Peter Weir's newest Australian film, **GALLIPOLI,** and it is quite a departure from his cinematically innovative and heavily symbolic earlier works, such as *The Last Wave.* This is a traditional historical piece, done with unsparing realism and scenes reminiscent of Kubrick's *Paths of Glory.*

The best parts of the film are not the climactic battle scenes, however, which occupy less than a quarter of the time, but rather the native background of the recruits, coming from farms and mining towns in western Australia "to sign up for king and country." It is here that we come to empathize with those who are later to be slaughtered, and in this depiction there is a strong sense of humor and a fine feeling for characterization. It is here that the director is apparently most at home, and it is in these early sequences that the viewer is most likely to wring from the film some genuine warmth of feeling.

Especially memorable are the shots of the Great Desert of western Australia, through which two of the soldiers-to-be trek at length to reach Perth. At the edge of the desert they meet an old prospector who asks them why they are going to fight so many thousands of miles from home. It's the Germans, the recruits reply; they're evil and dangerous. They were good to *my* family once, says the prospector; it's the *British* who butchered my Irish ancestors. But if we don't stop the Germans now they'll come here and take our land, comes the reply. Surveying the expanse of desert from which he tries to eke out a meager living, the old prospector replies, "They're bloody welcome to it." Apparently the post-Vietnam backwash has struck Australia too.

• **PRINCE OF THE CITY** is, as films go, an important one. It deals with an important theme—the corruption of a police department and the determination of one man to expose the corruption. It is almost three hours long, with hundreds of scenes, and is constructed with great intricacy and detail, with a masterful jigsaw-puzzle architecture reminiscent of the films of Fritz Lang. It is an organic unity: hardly a minute of those three hours could be cut without sacrificing an important aspect of plot or characterization. There are more than a hundred characters, and keeping abreast of every nuance of the story calls for one's full concentration. Unlike most current films, this one challenges our intellectual powers, besides leading us to forsake cliches in our moral judgments. All this requires complexity, which this film has in abundance.

Writer-director Sidney Lumet is most at home in making films about his native New York City, to which he returns in this one. It doesn't lead you on to heart-pounding involvement like his *Twelve Angry Men*; it just lays a moral issue before you, in all its real-life complexity. It is more than vaguely reminiscent of his earlier film *Serpico,* yet *Serpico* was intellectual third-grade stuff compared with this one.

Whether it should be the duty of policemen to arrest dope pushers is a matter for controversy. What is *not* controversial is that they can't make many arrests without informants who are themselves junkies and that these junkies must be rewarded for their information with renewed supplies of drugs. And from what source shall these rewards come? From the supplies confiscated by the policemen themselves. But all this is highly illegal. The result is that the moment a cop succeeds in getting the other cops in the dope ring arrested so that the arrests will stick, he is himself on trial for the illegal gifts of dope to his informants. By a slow but steady process of attrition, he is made to do what he resolved never to do: inform on his friends.

This is not a film for everyone. Its ceaseless portrayal of the seamy side of city life, the scenes of junkies screaming for a fix, will be too depressing for many viewers. Many others will lack the patience to follow the complex interweaving of the strands of plot. But its great virtue is that it does not simplify moral choices: by presenting them in the intricate context of actual circumstances, it leads us to put ourselves in the place of the protagonist, sharing his moral conflict and his torment, and to ask ourselves, "In these circumstances, what would I have done?"

• Two brothers, played by Robert Duvall and Robert De Niro, are a joy to watch in **TRUE CONFESSIONS.** Though one is a policeman and the other a priest, both love power and the accoutrements of power. They show to one another a variety of subtle shades of emotion: competitiveness, hostility,

detachment, esteem, affection. The scenes in which both are present are the best in the film.

Other than as an interesting character study, however, the film is something of a disappointment. In what story there is, there is a gruesome murder mystery whose ramifications affect the lives of both the brothers, but this aspect is developed so slowly and with so many interruptions that it hardly sustains one's interest. The shift of emphasis from plot to character delineation tends to get in the way of them both. The biting humor and crisp dialogue of the book is quite lacking in the film, which is low-key throughout and almost unremittingly serious. There are a couple of dramatic scenes; but, unlike *The French Lieutenant's Woman,* this film is not worth seeing just for soaking up atmosphere. One leaves the theater with the feeling that it's the sort of thing that, in view of the fine acting and the literacy of the script, one ought to have enjoyed. But in spite of the apparently serious intentions, the enjoyment doesn't quite come off.

John Hospers is a professor of philosophy at the University of Southern California. His book Understanding the Arts *was recently published by Prentice Hall.*

language

A Little R and R

By Richard N. Mitchell

The chief vices of education have arisen from the one great fallacy of supposing that noble language is a communicable trick of grammar and accent, instead of simply the careful expression of right thought. All the virtues of language are, in their roots, moral; it becomes accurate if the speaker desires to be true; clear, if he speaks with sympathy and a desire to be intelligible; powerful, if he has earnestness; pleasant, if he has a sense of rhythm and order.

—John Ruskin

John Ruskin, now dead and irrelevant, and an intransigent elitist in any case, is not much consulted by practitioners of modern educationism, who consult only each other. A mind like Ruskin's offers no enhancement of self-esteem to our self-appointed bestowers of "humanistic" values.

Let's consider, keeping Ruskin in mind, a brief passage from one of those innumerable task-force reports that serve to justify, at educational institutions, the salaries of swarms of administrators and professors of imaginary subjects:

This study supported the conclusions that practicing academic deans could benefit by possessing an expectancy of being able to control their work environment in order to successfully implement role responsibilities.

First, let's try to be fair. Even generous. We suspect that Ruskin would suspend his stern standards where the writing at issue is simply the work of an utter ignoramus. And who are we, to forbear less than Ruskin? So, if the author of our example is *not* a villain, but only a victim who couldn't possibly have known better, we'll take it all back. All he has to do is ask.

In the meantime, we do have to declare that the passage lacks those virtues that Ruskin finds moral.

It is not *accurate.* To speak of "practicing deans" is to invite entertaining but irrelevant speculation. Are there, in fact, some *non*practicing deans, disconsolate and dispossessed, lurking in the dark turnings of the corridors of power? Are deans *supposed* to practice on our time? And if they should actually manage to *implement* their responsibilities, would they have fulfilled them, or established them, or devised them? All are possible in this lingo, where programmatic thrusts and nontraditional aspects are just as implementable as responsibilities.

The passage is not *clear.* That first phrase suggests that "conclusions" already drawn (could the writer have meant *hypotheses*?) were thereafter "supported" (could he have meant *drawn*?) by the same conclusions. Furthermore, following the word *conclusions* we find only *one* candidate for conclusionship, and a weird one at that. Is it enough for a dean (practicing) merely to possess an *expectancy* (expectation?) of being able? Wouldn't it be better if he were simply *able*? And what does he *do* if he is able to control the "work environment"? Turn up the thermostat? And how are a dean's "role responsibilities" to be distinguished from a dean's responsibilities?

Since this language is neither accurate nor clear, and unless the writer can adduce evidence of his ignorance and incapacity, we have to conclude that he desired *not* to be true and intelligible. Since his language, garbled, verbose, and pretentious, is neither powerful nor pleasant, we must conclude that he wrote not in earnestness but out of deceitfulness or affectation and that he has no sense of rhythm and order.

But wait. Surely this poor chap is just a cipher, just another bland and mediocre functionary conscientiously doing his job and performing a piddling task, a task of little importance, in which he has no interest, and which will almost certainly have no consequences. Thousands of other decent twits, plug-in modules so like each other that only their mothers can tell them apart, are doing exactly the same kind of meaningless work in exactly the same thoughtless fashion in every "educational" institution in the land. Can we, or even Ruskin, indict all those decent folk for nothing less than turpitude?

Yes.

Consider, first, those empty but perennial tasks that bring forth the kind of language we see in our sample, which is perfectly typical of the lingo used by school people. Those tasks are not *entirely* without consequences; nor are those who perform them without a special kind of interest in them.

It is fairly safe to say of any elaborate "study" like the one that provided our example that *not one student* will grow in knowledge or understanding because of it. But it *does* serve to justify places on the payroll for lots of people who might otherwise be driven into a calling less lofty, and more demanding, than that of "educator." Now that is a consequence dear to *somebody's* interest.

It is also dear in another sense. It is largely because of such people doing such work that it now costs more than $4,000 a year to keep a child in the public schools of Boston, where—and this is the usual pattern in government schools—administrators multiply as students disappear. You could *educate* each child for a small fraction of that cost, but you would thus destroy a tremendous government jobs program.

Anyone who *knowingly* takes money for performing trivial tasks in such a cause must be venal. What, though, of those who know *not* what they do? Might they not be accounted no more than innocent dupes?

No.

Dupes they are, but guilty dupes. They acquiesce in their own dupery, profit from that acquiescence, and help to visit that dupery on others.

Dupery is accomplished through language. There is no other way. It is entirely through the language that they promulgate that our educationists have "taught" countless thousands that trick of automatic thoughtlessness without which no one—*no one*—would ever speak of possessing an expectancy of being able.

Educationists reject, as authoritarian and oppressive, such ways of teaching and learning as "rote and recitation."

Those two terrible R's can only lead to a most terrible third: regurgitation. Regurgitation does not enhance self-esteem. It is not creative. That sounds so lofty and humane.

With their usual logic, however, the educationists deem rote learning oppressive where it serves best and, where it is an impediment to thoughtfulness, cherish it. How, after all, did our author come to speak of the cloudy work environment and the preposterous possession of an expectancy of being able? What led him to call deans, practicing deans, and responsibilities, role responsibilities? Rote and recitation. They *all* write like that, all our pedagogical preachers of creativity and self-expression.

And where the work of thinking is done by rote and recitation, we *do* get regurgitation. How could we better describe our sample and educationistic writing in general than as an involuntary ejection of that which is noxious and intolerable?

Even against the dupes we must bring the charge of uncleanness. They vomit industriously where others gather to find nourishment.

Richard Mitchell is the author of Less Than Words Can Say *and the publisher of the* Underground Grammarian, *from which this column is adapted.*

books

Is Capitalism Washed Up?

Inequality in an Age of Decline.
By Paul Blumberg.
New York: Oxford University Press.
1980. 290 pp. $15.95.

Reviewed by Edwin Harwood

American capitalism is stagnating. The poor will get poorer, and many in the middle-class will fall into the proletariat with the falling rate of affluence. Social conflict along ethnic and interest-group fault lines will sharpen; the class struggle will intensify.

And then? *Inequality in an Age of Decline,* besides sparing us the cant found in so much New Left writing of a decade ago, also spares us a forecast of revolution. Thankfully, Professor Blumberg takes seriously both the clarity of his prose and the need to document his claims. And because he accepts the evidence of surveys that show the American public's continuing loyalty to free enterprise, even when the economic waters are pitching rough, we can put to rest the sanguinary prophecies of the youthful Karl Marx of *The Communist Manifesto.*

With fresh statistical threads, spun from the Bureaus of Labor Statistics and the Census, Blumberg takes the measure of our current economic crisis to refit the burial shrouds stitched by Marx in eager expectation of capitalism's demise over a century ago. American capitalism may yet survive, Blumberg tells us, but probably only if given prompt transfusions of "democratic economic planning."

This might play in Berkeley or Ann Arbor, but I wonder where the market is in Indianapolis, Wichita Falls, and Houston. Can progressive labor leaders and intellectuals rescue us from our "privatized material consumption," hobbled urban *Gemeinschaft,* public-sector squalor, and declining competitiveness—among other ills catalogued—when it is not at all certain the rank-and-file will show up for the muster? In a survey conducted by the AFL-CIO not too long ago, sizable majorities of its members took decidedly "conservative" positions on defense and economic policy issues. Fully 65 percent favored a constitutional amendment requiring a balanced federal budget, for example. (But here's the rub: the survey also flushed out responses showing that workers still look to government for protection.)

Blumberg wants to show that the American dream of unlimited economic mobility and a classless society, which intellectuals in the 1950s thought our postwar abundance had delivered, has been shorted by an overload of rising energy costs and foreign technological encroachment on our market circuits. True, living standards had risen for almost all Americans through the 1960s, yet the income and wealth gaps, Blumberg claims, remained largely unchanged.

But in chastising the celebrants of the "affluent society," Blumberg too easily decides the issue in favor of those scholars who claim no changes in wealth and income distributions had occurred. If you consider only *privately* held stocks and bonds, as Blumberg does, and omit the pension fund holdings of America's workers, you'll surely find less change in inequality than if you include those pension holdings. Indeed, you'll miss the most important postwar revolution of all: the effective transfer of publicly held corporations to working and middle-class ownership. And when you decide to exclude food stamps, medicaid, rent, and other in-kind subsidies to the poor when figuring their income share, on the grounds that these aren't monies they can spend at their discretion, that too will help your argument that life has worsened for the poor.

Blumberg holds more defensible ground when he examines the weakening of foreign and domestic markets for American-made goods, drawing out fresh observations on this topic from a satchel of Census data that this time comes off a scale using fairer weights. His criticism that American firms are sometimes too eager to license advanced technologies abroad before trying to exploit job-creating production at home should not be dismissed out of hand by those who think corporations should be free to follow their profit instincts wherever they may lead. Perhaps for the sake of market efficiency they should be. However, in the real political world of advanced capitalism, neglect of the consequences for jobs may have political repercussions that could end up by making matters worse for US industry.

Blumberg is also correct in pointing out how announcements of the coming of postindustrial society by Daniel Bell and others may have been premature. The size of the professional work force that would staff the new "knowledge industries" was greatly exaggerated, as was the demise of blue-collar workers. Here, the professor's statistical squadrons maneuver with maximum effect.

Since neither think tanks, semiconductor firms, nor even off- and on-shore drilling rigs can alone absorb the still numerous blue-collar workers in older industries threatened by foreign competition, can we create new industries or revitalize old ones before the political fuse is set? If we can't, then workers who are still loyal to the way American capitalism does business might move to Mr. Blumberg's corner and second the motion for "democratic planning."

A final point. It is somewhat vexing to hear the middle class being reprimanded in this book for possessing their "privatized toys and trinkets" and for allowing a Korvette's store to be built near the Long Island Expressway with tacky tract houses in place of a cathedral and peasants' huts grouped around it in "silent obeisance." This vexes because Blumberg quite readily excuses the anger of our poor who use the middle-class living standard as their reference, even though he notes that they are very well endowed with possessions by comparison with the poor of Asia and Africa. Is consistency too much to ask for? If the privatized material consumption of

middle-class folk is a bad cultural habit, why insist that the poor should have more of the very things that are allegedly alienating the rest of us?

Edwin S. Harwood is chairman of the Department of Sociology at Mercer University.

Paper Tiger

Paper Money.
By Adam Smith.
New York: Summit Books/Simon & Schuster. 1980. 317 pp. $14.95.

Reviewed by Thomas W. Hazlett

Books on the economy are like opening lines in a singles' bar: the trick is to devise some crafty, innovative vehicle to steer you to the destination whereto the whole world knows you're headed. Writing about the Homeland's financial mess may lead to a different conclusion from your-place-or-mine, but it is no less certain: all roads lead to the shrinking dollar.

Adam Smith—not *the* Adam Smith, of course, but the *other* Adam Smith—is nothing if not ambitious. Make that *pretentious.* One need look no further than his stolen *nom de plume* to figure this out, yet the courageous "Smith" throws in an "acknowledgments" section that surpasses even this and firmly establishes the author as the biggest name-dropper since Jesus. (He thanks no less than one Columbia professor, two MIT profs, four from Harvard, and six Princeton economists, not to mention countless sheiks, corporate prexies, and high-ranking government officials, all for their personal attention to his book.)

We might forgive this penchant for middle-aged preppyism if the talented communicative abilities of Mr. Smith (a star of the "new journalism" of Tom Wolfe fame) were put to satisfying, and worthy, intellectual use. But, alas, this is 301 pages of a cat chasing its own tail. While the title, *Paper Money,* hints of an understanding of inflation, intelligent analysis quickly gives way to cute anecdotes, and right-thinking suggestions wither in favor of the fluffy metaphor. This is a sundae with lots of tasty cherries—but no fudge.

It *is* amusing to read of the genesis of OPEC and to learn it was so carefully molded in the image of one of the great American institutions, the Texas Railroad Commission. Yet Smith stretches our patience past the snapping point with allegations that Arab-speaking operatives are the ones who create US inflations and depressions, mushroom our

Simon Metz

"Adam Smith"

credits and debts, and stifle our government planners. Their main contribution, in point of fact, may be to allow folks like "Adam Smith" to write books about paper money without ever getting around to the central point: the Federal Reserve's legal monopoly on legal tender. If the Germans and Japanese blamed *their* troubles on the oil-slick sand-surfers of Saudi, why they'd be in such bad shape as...as...as *we* are.

Smith also employs his skills of good-essay in pursuit of the ever-fashionable joke-on-the-economist. This is a popular ploy of writers on the economy, one of the primary reasons being that easy things get done often. It can also be very funny, of course, unless one happens to be one of the hapless econometric "computer jockeys" Smith pokes at. Yet, when a pundit knows not of which he pokes, the scene comes off much as would the view of a blind matador punching at his bull. Smith wisely chooses to engage in combat with nothing more threatening than professional economists.

If *Paper Money* serves up even a side order of The Truth, it takes some 294 pages of appetizers to arrive. Finally, we find this finely seasoned morsel concerning the development of inflation:

After World War II the United States could borrow money for forty years and pay the lender 2½ percent. Now it pays 13 percent to borrow for ten years. The time horizon of the lender parallels the foreshortening of goals. Lenders do not want to lend long-term; corporate managers do not think long-term, they think more in near-term three-year slices. Building up capital and cutting back on debt is a tough and painful process. When it happens in the business cycle, the sufferers, whether business or farm or labor, complain and the government accommodates with more money. So the cycle of adding debt continues.

Inflation has done more for government than Madison Avenue could ever dream of doing for household appliances. It is the penultimate "buy now pay later" scheme and, at least until tax indexing, offered a generous rebate policy to the decisionmakers who exercised the option. What should worry us most, though, is the social frustration that explodes when rampant inflation erases all the game's ground rules. "The trouble with paper money," writes Smith, "is that it rewards the minority that can manipulate money and makes fools of the generation that has worked and saved."

Quite an insight; but this is just where our book ends. Perhaps the able-penned Adam Smith should spend less time in the Ivy League or Sharm el-sheik, and a little more time down at the Fed. No volume on inflation should wait until its last seven pages to reveal the culprit. The rest of us have already seen who dunnit.

Thomas Hazlett teaches economics at California State University, Fullerton, and contributes frequently to magazines and newspapers.

Inordinate Fear?

Kingdoms of the Blind.
By Harold W. Rood.
Durham, N.C.: Carolina Academic Press. 1980. 295 pp. $13.95.

Reviewed by M. T. Owens

A great chasm separating libertarians from conservatives is the question of foreign policy and national defense. Conservatives perceive a threat from the Soviet Union; so, as much as they may wish to reduce the power and burden of government, this does not apply to the Department of Defense. Many libertarians, on the other hand, while recognizing the totalitarian nature of the USSR, maintain nonetheless that the United States is equally the aggressor in the postwar world. Indeed, many, influenced by "revisionist" history, have come to see the United States as the instigator of the Cold War. (Interestingly, while New Left and Marxist authors such as William Appleman Williams and Gabriel Kolko have been taken to heart by many libertarians, there is little if any notice of Robert Maddox's devastating critique of

the revisionists, *The New Left and the Origins of the Cold War.*)

Since the "State" is the source of most ills, the power of all States, including our own, must be reduced. Since "war is the health of the State," this reduction ought to begin with the defense establishment. These libertarians share with liberals the belief that war can be avoided by eschewing confrontation.

It is fashionable to assert that the Soviet Union will fall of its own weight, primarily because the economic system is near collapse. Such claims are the reason for the timeliness of Harold Rood's disturbing *Kingdoms of the Blind,* for in it he shows the weakness of such fashionable arguments. Germany was said to be near collapse just before the invasion of Czechoslovakia and again before the Polish excursion. And economic weakness has not prevented the USSR from engaging in the greatest peacetime military expansion in the history of the world.

Rood begins by recounting the "blindness" of the Western democracies to the post-World War I rearmament of Germany. The story he tells is not a new one, but we must be impressed with how the British government so vociferously opposed suggestions that the Germans had any aggressive intent. Such an attitude merely played into the hands of Hitler. Rood quotes a rather forthright statement by the Fuhrer:

> *The prevailing circumstances have obliged me to speak, for a decade or more, of almost nothing but peace. Only, in fact, by continuously declaring the German desire for peace and Germany's peaceful intention was I able, step by step, to secure freedom for the German people and to provide Germany with the armaments which have, time and time again, always been the essential precondition for any further move.*

Less than a month before the German invasion of Czechoslovakia, Prime Minister Chamberlain could write to his sister:

> *I myself am going about with a lighter heart than I have for many a day. All the information I get seems to point in the direction of peace and I repeat once more I believe we have at last got on top of the dictators. Of course that doesn't mean I want to bully them as they have tried to bully us; on the contrary I think they have had good cause to ask for consideration of their grievances. . . .*

Such naivete is still with us. An American president told us in 1977 that we were over our "inordinate fear of communism"; in 1979 that same president expressed dismay over the Soviet invasion of Afghanistan. How many times in recent years have Western commentators written optimistically of a liberalization of Soviet attitudes: Czechoslovakia, 1968; SALT II; Poland, 1980?

What should astound us the most about Rood's account of recent Soviet expansion is that Soviet statements and actions are regularly reported in newspapers, just as information about German aggressiveness was available to the citizens of the democracies in the 1930s. Yet newspaper editors consistently deny any aggressive intent on the part of the Soviets. Indeed, we are often confronted by newspaper wire reports of Soviet aggression, while on the editorial page of the same newspaper we are assured of the peaceful intent of the USSR.

Perhaps the most disturbing part of Rood's book is his account of US strategic ignorance. Our strategic situation

Book Hints

a selective mention of books received for review

WE ARE PLEASED TO NOTE the publication of new editions of some free-market classics. New York University Press has brought out a new translation, by James Dingwall and Bert F. Hoselitz and with an introduction by Friedrich A. Hayek, of Carl Menger's *Principles of Economics* (New York: 1981, 320 pp., $20.00/$7.00). The publication of this book in 1871 is said to have launched the Austrian school of economics. Available from the same publisher is a new edition, translated by George Reisman, of Ludwig von Mises's 1933 *Epistemological Problems of Economics* (1981, 231 pp., $20.00/$7.00).

A new edition of von Mises's 1934 *Theory of Money and Credit* comes to us from LibertyClassics (Indianapolis, 1981, 526 pp., $11.00/$5.00), with a specially written foreword by a student of Mises and an influential figure in his own right, Murray N. Rothbard. Another book dealing with money is by Henry Mark Holzer, a gold-money advocate (and, incidentally, one of the attorneys for Walter Polovchak, the Russian boy seeking to stay in America against his parents' wishes). In *Government's Money Monopoly* (New York: Books In Focus, 1981, 223 pp., $19.95), Holzer recounts how and why the monetary system became a government monopoly.

On the private side of things, Robert Hessen of the Hoover Institution is the editor of an important collection of essays, *Does Big Business Rule America?* (Washington, D.C.: Ethics and Public Policy Center, 1981, 74 pp., $3.00), rebutting the interventionist recommendations of Charles E. Lindblom's *Politics and Markets.* President Reagan's budget director, David Stockman, authored the last chapter, "How the Market Outwits the Planners."

A more literary work on the Big Business theme is engineer-writer Samuel C. Florman's *Blaming Technology: The Irrational Search for Scapegoats* (New York: St. Martin's Press, 1981, 198 pp., $12.95). Many of the chapters first appeared as essays in *Harper's,* and the tenor of the book may be gleaned by one chapter heading, "Small Is Dubious."

A definitely unusual jump into philosophy, via science fiction, is *Thought Probes,* by Fred D. Miller, Jr., and Nicholas D. Smith (Englewood Cliffs, N.J.: Prentice-Hall, 1981, 358 pp., $11.95). Miller and Smith pose eight philosophical questions—such as "Does God exist?" and "Can you know what is right or wrong?"—and then present for each a short science fiction story that makes the problem come alive. The stories are followed by analyses of the problems from a philosophical perspective, such as an excerpt from Robert Nozick's *Anarchy, State, and Utopia* in the social ethics chapter, and a set of probing questions from the editors.

Other new books, by REASON contributors: *The Romantic Love Question and Answer Book,* by Nathaniel Branden and E. Devers Branden (Los Angeles: J. P. Tarcher, 1981, 260 pp., $11.95); *The Graves of Academe,* by Language columnist Richard N. Mitchell (Boston: Little, Brown, 1981, 229 pp., $11.95), as well as a paperback edition of his *Less Than Words Can Say* (1981, 228 pp., $5.95); *Is Public Education Necessary?* by Samuel L. Blumenfeld (Old Greenwich, Conn.: Devin-Adair, 1981, 257 pp., $12.95); *Contract as Promise: A Theory of Contractual Obligation,* by Charles Fried (Cambridge, Mass., and London: Harvard University Press, 1981, 156 pp., $14.00); *Enterprise Zones: Greenlining the Inner Cities,* by Stuart M. Butler (New York: Universe Books, 1981, 168 pp., $12.95); and by Oscar Newman, the urban planner whose work inspired our article on the private streets of St. Louis (Aug.), a novel called *Unmasking a King* (New York: MacMillan, 1981, 297 pp., $11.95).

vis-a-vis the Soviet Union has eroded to an alarming degree in recent years. Rood argues that each successive crisis "has reduced the freedom of action of the West to wage effective war, while increasing the Soviet capacity to do so."

Rood asks us to reevaluate, for example, the Cuban Missile Crisis. The United States supposedly won; yet in exchange for the removal of Soviet missiles, the US government agreed not to invade Cuba, in effect ratifying Cuba's status as a forward Soviet base.

What of Soviet promises to keep Cuba free of Soviet offensive weapons? By 1978 Cuba was operating as a full-fledged Soviet base, capable of supporting Komar-class missile boats, Yankee-class nuclear missile submarines, TU 95B long range bombers, and MIG 23s, all capable of delivering nuclear weapons against the United States. Of course, who can forget the celebrated Soviet "combat brigade"? in Cuba no doubt to

According to Rood, the situation in Cuba demonstrates that US policymakers have not considered war a possibility. This conforms to our ignorance or neglect of strategy. What would happen, he asks, in the event of a war elsewhere in the world? Cuba controls the sea routes to the Panama Canal, the Florida Straits, the Windward Passage, the Yucatan Channel, and the Bahama Channel. Soviet and Cuban air and naval forces could severely disrupt the sea lanes to Europe and the Middle East. In order to eliminate the Cuban threat, the United States would be required to divert the entire force now earmarked to reinforce NATO. The essence of strategy, which the Soviets understand while we apparently do not, is "to force one's enemy to defend that which he has no choice but to defend in areas away from the principal theater of war, while one's own forces concentrate to achieve a decision in that theater of war where the outcome of battle will decide the outcome of war."

The lesson of Rood's book, which we ignore at our peril, is that defense policy must be based on a realistic acceptance of the possibility of war. However much we may hope for a peaceful and liberal world, we must be prepared for others' not sharing that vision. "Military policy must fit the requirements for successful strategy and successful strategy does not derive from the notion that war is impossible."

M. T. Owens recently left the Economics Department at the University of Dallas to join the Smith Richardson Foundation as a program officer.

Re-viewing Multinationals

Private Power.
By Axel Madsen.
New York: William Morrow. 1980.
258 pp. $12.95.

Reviewed by Don Markley

Private Power probably would not have been published in the 1970s. In a decade where everything from coups to pollution to poverty were blamed on multinational corporations, a book with the subtitle *Multinational Corporations for the Survival of Our Planet* would have found only the smallest of audiences. But perhaps now, with Americans' evident wearying of governments' grand plans, the idea of global companies being more useful than governments in bringing about a prosperous and peaceful world will receive a warm reception in at least some circles. And that is precisely Mr. Madsen's theme in *Private Power.*

In the introduction he states: "The strongest defense of global enterprise is that it stands in stunning contrast to government power. . . . National governments are inadequate when it comes to dealing with the planet's necessities, and we may legitimately wonder whether the

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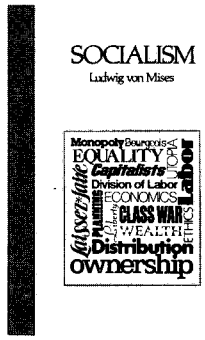

Socialism

By Ludwig von Mises

A praxeological and economic analysis of society comparing the results of socialist planning with those of free market capitalism in respect to property, equality, law, science, religion, morals, race, democracy, the state, utopia, war, slavery, monopoly, competition, labor, capital, the family, marriage, and other issues.

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importance of nation-states isn't greatly exaggerated and whether politicians deserve star status."

Madsen chronicles the failure of governments large and small to achieve their plans and details how political jealousies and nationalistic narrowmindedness lead to policies that harm their own citizens. In contrast, says the author, "Multinational corporations suffer none of these ills.... If the world economy can be characterized by slow growth, chronic underemployment, large trade deficits, and pronounced instability, the 'transnationals', as U.N. bureaucrats like to call them, give every appearance of permanence and stability."

What seems to fascinate Madsen most, and leads him to the conclusion that the multinationals are our last best hope, is their ability to "roll over," to cope with change. Much of the book is taken up with examples of the resiliency of the successful multinational—how they change the products and services they offer to meet shifting demands and new technology; how they survive wars, government takeovers, etc.; how they manage to profit despite operating under widely varying systems of taxation and regulation.

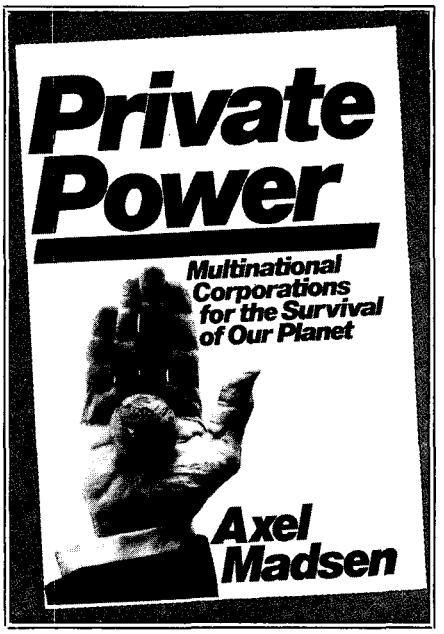
Curiously, Madsen employs arbitrary criteria for determining what is and is not a true multinational: Over 50 percent of earnings must be outside the corporation's home country, and revenues must be at least $10 billion. He comes up with a list of only 18 firms (and a 10-corporation second-string whose members need only a little growth or earnings reallocation). Neither General Motors nor Ford is on the list, but Volkswagen and Daimler-Benz qualify.

Although his brief sketches of the chosen 18 are sometimes quite interesting and serve to back up his central theme, Madsen must realize that GM, Ford, and many other companies consider themselves multinational in scope, as do the governments of the countries in which they operate. Both the standards and the list seem rather unimportant to the matter at hand.

Of course, through all this Madsen is guilty of a selection bias. Many large corporations *do* suffer from instability, slow growth, deficits, etc., but they don't stay large for long, and several have disappeared. Corporations are not successful because they operate around the world; they operate around the world if and when they are successful.

Several chapters are devoted to the ways in which governments try to control business and trade or enter into business themselves. Comparisons are made between free trade and protectionism, private and government ownership, democracies and dictatorships. Many governments are seen as needing the International Monetary Fund to control their largesse. The United Nations is depicted as a meaningless squabble ground, producing no workable solutions to the problem of the ever-widening wealth gap between First- and Third-world nations.

The reader is left to draw his own conclusions, and the following are fairly obvious: (1) resources, technology, capital, and skills will flow to the areas where they will be most profitable, and this is usually where they are least encumbered by taxes and state controls; (2) because of multinationals and the Eurocurrency market, governments are somewhat



helpless to manipulate this flow for their own purposes; and (3) multinationals do not exploit less-developed countries but are in fact the most efficient means enabling people to build wealth in the Third World.

Madsen has done an admirable research job, and he writes in a lively style, which makes *Private Power* interesting and thought-provoking. It is disappointing, however, that he did not seem to be carrying the book's theme with him as he conducted his research. He didn't ask the leaders of the multinationals about the grand design of a near-stateless world and a global marketplace. Thus we get few ideas about how to get from here to there, or, more importantly, whether the multinationals see that as a goal to strive for. (I suspect many would not. Most of Madsen's chosen elite owe much of their success to an ability to manipulate "the system," winning government contracts, gaining trade restrictions, or becoming partners with government in major enterprises.)

The future role of multinationals, governments, and quasi-governmental organizations in the world economy can be thought of as a puzzle. *Private Power* gives us a good look at the pieces of the puzzle but barely begins to put them together.

Don Markley has a Master's in Business Administration and works for a Los Angeles–based corporation.

letters

(Continued from p. 10.)

develop consciousness." Even if a fetus could be proved to have a completely developed conceptual faculty, it would have no "right" to exist within its mother's body, for *separateness* is as much a part of what we call a human being as its conceptual faculty. For example, no separate adult human being may claim a right to the organ of another in order to survive, even if the other individual has organs to spare. Why then would a fetus be able to claim a right to sanctuary within its mother's womb simply because it has achieved a certain level of brain activity? The principle of self-ownership supersedes such a claim. However, if upon separation the baby should survive on its own, it then possesses all rights of any human being, and killing it would be murder....

It is fallacious to equate calmness with reasonableness. Sometimes it is because we see things so clearly that we feel so deeply about them. Perhaps when men are able to calmly face their own loss of freedom to the military draft, women will be able to calmly face their loss of freedom to unwanted children.

Susan Love Brown
San Diego, CA

Mr. Bissell replies: Mr. Verive glosses over the very real and essential difference between the various creatures he lumps together. If you're asleep or intoxicated, your *actual* rational faculty is "out to lunch." If you're unconscious (and not permanently so), it is "temporarily out of order." In each case, you have basically workable cognitive machinery that is temporarily out of commission—machinery *not* possessed, however, by the pre-28-week fetus (not yet workable), the baby born without a cerebrum (no machinery), or a Karen Ann Quinlan (never again workable).

Mr. Kunz rejects my "actual perception" requirement and implicitly equivocates between human *qua homo sapiens* (a genetically human being) and human *qua rational animal* (a functionally human homo sapiens). To answer his question in this light: what we have from conception onward is a living homo sapiens that does not, however, become a rational animal with rights until about the 28th week.

Mr. Maybury misses the requirement for "potential conceptualization," not just actual perception, and ends up asserting animal's rights. No matter how wrong or immoral it may be to destroy them, no creatures without at least the potential for moral behavior can be said to have "rights" in the political-legal sense.

Mr. Dunn claims that actual perception alone isn't adequate. True enough. Like Mr. Kunz, he fails to grasp that perception for a normal fetus marks the beginning of its rational faculty's operation, because *perception* (for such a fetus) *is and must be part of the process of reason and concept-formation*! If concepts and reason are our distinctive tool for grasping *reality*—rather than merely manipulating percepts—then conceptual integration and the reasoning that flows from it must be thought of along with perception as parts of a unified, natural, characteristically human process: *reason.* The alternative is to sever concepts from reality, thus invalidating all morality and rights.

Similarly, just as reason for humans is not some faculty apart from perception of reality, neither is volition some faculty apart from the faculty for consciously directed choice we (and fetuses) make on a purely perceptual-automatic basis—and which we *begin* to make when our perception begins at 28 weeks.

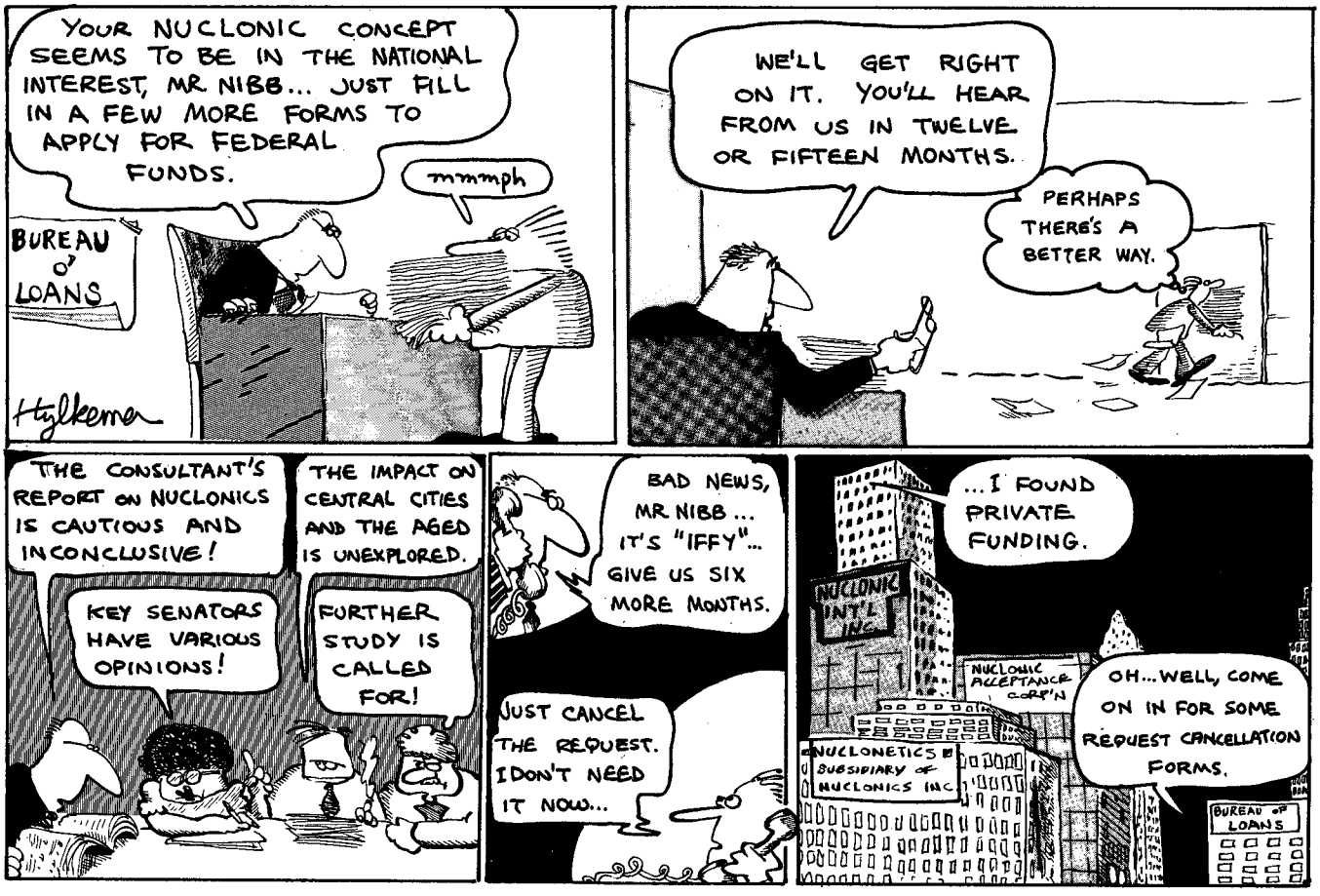
As for "overstepping available evidence": Dr. Purpura, cited in my article, based his claims on simultaneous studies of both structural *and functional* aspects of brain development, correlating results of brain wave, *visual,* and other tests with autopsy studies of premature infants. The evidence is extensive and the implications clear-cut. (For more on Purpura's findings and other supporting research, see *The Secret Life of the Unborn Child,* by Thomas Verney, M.D., Summit Books, 1981.)

Ms. Brown's offer to recognize a baby's right not to be murdered "if upon separation the baby should survive *on its own*" is "generosity" of a particularly empty kind. What is the moral and practical difference between throwing a nonswimmer into the ocean and the additional act of holding his head under until he drowns? The right to life, for disabled rational beings (including babies and post-28-week fetuses), *is* the right to support from anyone who caused their predicament. In particular, a mother has no logical or moral right to regard the support of her baby (or third-trimester fetus) as "involuntary servitude" or "slavery." That support is a *just* claim.

Self-ownership, the "sole right to control what happens to your own body," is not an out-of-context absolute. If, in exercising your right to self-ownership you indebt yourself to another person, then reneging on that debt is a violation of that person's rights, because the goods are rightfully his. Being required by law to make good on that debt is *not* a violation of your self-ownership.

rudebarbs

Randall K. Hylkema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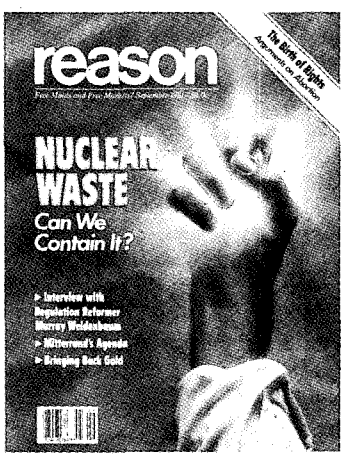

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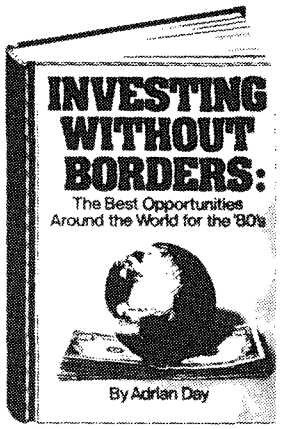
- *The exciting resource group* **that many feel is the 1980's equivalent of gold and silver in the '70's.**
- *Ground floor opportunity* **in a neglected kind of coin. The author feels a boom is almost certain.**
- *A way to multiply* **by several times over your opportunities to catch cyclical investing "bargains" ...a way to get added "leverage"** *without* **borrowing...how to get two and sometimes** *three* **chances to "catch the boat" on speculative stock booms... and more!**



Now! Discover the spectacular riches on today's "last frontier" for investors.

—the exciting investment world beyond U.S. borders.

If you like exciting investment opportunities, just take a look at those above. Chances are, you've rarely seen anything like them — and no wonder! They're scarce as hens' teeth in the over-regulated, over-taxed, inflation-sapped U.S. investment markets, where the ever-present professionals snap up most bargains before non-professional investors even hear of them.

Not so outside the U.S., however, where opportunities like those above can be found. It's a fabulous, free-wheeling "last frontier" for today's investor — and now you have the chance to get in on it.

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- Places where you may have a second chance to catch the boom in computer stocks. In fast foods. In real estate.
- A stock which may be the future IBM of the Orient. Another described as "one of the best technology plays in Japan." 6 fields that will be the wave of the future in the country with the world's most active stock exchange.

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4 Scenarios for Disaster (What can happen when your assets aren't "internationalized.")

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Scenario 2. You face a high-risk operation before the new, lower estate tax rates take effect. It's not fair, but your heirs could lose a bundle because of this bad timing.

Scenario 3. The big spenders come back to power and inflation runs wild. You decide to move some assets from the U.S. — but too late. Exchange controls are on!

Scenario 4. Scenario 3 never happens. Instead, the U.S has a credit crisis and financial collapse. With no overseas hedges, you're all but wiped out for good.

As you can see from these scenarios, profits are just one of the reasons why many investors are diversifying assets abroad. The second big reason: financial security.

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Why every Reason Magazine reader should know about the Gold Newsletter

Gold was $35 in 1968. $10,000 an ounce is predicted by a prestigious research firm.

Today, practically every economic event or investment asset is affected by gold, gold prices and the gold market.

A rise in the price of gold signals more inflation ahead. This causes more money to enter the rare coin market, leading to higher prices. (Rare coin prices skyrocketed in 1968, for example, after gold broke from $35 an ounce.) Of course, the value of bullion and semi-numismatic coins is directly tied to the price of gold.

These are a few of the reasons why it's so important for coin collectors and investors to keep up with the gold market. Yet most numismatic publications don't cover the world of gold in depth.

Fortunately, there's *one* source for *all* the important news about gold. It's called *GOLD NEWSLETTER*.

Introducing the Newsletter for the GOLD Insider

GOLD NEWSLETTER, world's largest and most respected publication entirely devoted to gold, is edited and published monthly by Jim Blanchard.

GOLD NEWSLETTER covers every key event in the world of gold. Demonetarization, hyperinflation and depression? What effect will these events have on the price of gold?

GOLD NEWSLETTER contains articles and essays that answer these questions. Exclusive, timely interviews with top gold and monetary authorities. The news on gold from South Africa, Europe, the Mideast. And much more.

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- Rare Gold Coins vs. Gold Bullion: Past Performance and Projection.
- Silver. It's Time To Buy the Poor Man's Gold.
- How Safe is Your Safe Deposit Box?
- Why You Should Own *Both* Rare Coins and Gold Bullion Coins.
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